Management of Retail Personnel
Overview
Elements of retail organization. Objectives and tasks. Principles of retail organization.

Evolution Of Retail Organization
Need of having a professional retail organizations. To capture markets – the need to have different types of retail organizations. Various function of a retail organization.
Globalization and retailing.

Types Of Retail Organization High Volume
Departmental store, hyper market, franchise organizations, merchandising conglomerates.

Types Of Retail Organization Low Volume.
Voluntary chains, retail Co-operative, Consumer Co-operative, Corporate chains.

Human Resource Management Overview

Motivation, Commitment And Issues Inretail Human Resource Management

Customer Relationship Management
The CRM Process; Loyalty; Overview of CRM Process; Collecting Customer Data; Customer Database: Identifying Information: Privacy and CRM Program; Analyzing Customer Data and Identifying Target Customers; Identifying Market Segment; Identifying Best Customers; Developing CRM Programs; Customer Retentions; Converting Good Customers and Best Customers; Dealing with Unprofitable Customers; Implementing CRM Programs

Case Studies
Rise of Walmart. J.C. Penny; Harrods; Marks and Spencer; Rise of Reliance Retail.

Modern Concepts
Modern concept of management; India Retail Biz; Role of Information Technology(IT) in managing diversity in global business; Relationship Marketing in Retailing-The Evolution of Relationship Marketing Strategies.

Suggested Readings:
1. Retail Management – Functional Principles and practices – Gibson Vedamani
   Publishing House:: Jaico
4. Retail Management – A strategic approach - Barry Berman Joel R Evons. Publisher: Prentice Hall
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1.1 INTRODUCTION  
Learning Objectives  
- To understand the various methods of classifying retail formats  
- To analyze the recent changes in the structure of retailing  
- To explain the ownership patterns of retail organizations  
- To understand the operational structures associated with retail organizations  
- To evaluate retail classifications based on the length and depth of merchandise  
- To discuss retail classifications based on the nature of service  
- To discuss retail classifications based on the type of pricing policy  
- To evaluate retail classification based on the type of retail location  
- To analyze retail classification based on the method of customer interaction  

The term retail organization refers to the basic format or structure of a retail business designed to cater to the needs of the end customer. Recently, some scholars have started referring to India as a nation of shopkeepers. This epithet has its roots in the huge number of retail enterprises in India, which were over 12 million in 2003. About 78%, of these are small family businesses utilizing only household labour.  

Even among retail enterprises that employ hired workers, the majority of them use less than three workers. There are only 14 companies that run department stores and two with hypermarkets. While the number of businesses operating supermarkets is high (385 in 2003), most of these have only one outlet. The number of companies with supermarket chains is less than ten.  

A large portion of consumer expenditure in India is incurred on basic necessities, especially food related items. Hence, it is not surprising that food, beverages, and tobacco accounted for as much as 71% of retail sales in 2002. The remaining 29% of retail sales were in non-food items. Sales through supermarkets and department stores are small compared to overall retail sales.
However, their sales grew much more rapidly (about 30% per year) during the review period. As a result, their sales almost tripled during this time. This high acceleration in sales through modern retail formats is expected to continue during the next few years with the rapid growth in numbers of such outlets in response to consumer demand and business potential.

As we see, various components of retail marketing mix indicate diverse strategic motives of the retailers. This gets reflected in the preference for different types of retail formats. Specific retail format analysis is important in these phases of strategic planning: selecting an organizational mission, choosing an ownership alternative, defining the goods/services category, and setting objectives.

Retail firms may be independently owned, parts of a retail chain, operated as a franchisee, leased departments, owned by manufacturers or wholesalers, consumer-owned, or co-operative societies.

A retail unit could be owned by:

- Manufacturer (e.g., company owned retail outlets)
- Wholesaler (e.g., Vastra outlet in Rajouri in New Delhi)
- Independent retailer (Chanakya Sweet Shop near Hazratganj in Lucknow)
- Consumer (consumer owned grocery stores in many residential societies)
- Co-operative society (e.g., Mother Dairy milk booths in Delhi)
- Government (e.g., Cottage Emporia)
- Ownership shared among franchiser and franchisee (e.g., Archies Gallery)

Although most Indian retailers fall in the category of small-scale units, there are also some very big retailers. According to a study by Economic Times Intelligence, the Confederation of Indian Industry, and Tata Strategic Management Group, organized retail sales in India were Rs 135 billion in 2000 and are estimated to grow to Rs 460 billion by the year 2005. Organized retail stores are generally characterized by large, professionally managed store formats providing goods and services that appeal to customers, in an ambience that is conducive for shopping and provides a memorable experience to customers.

From positioning and operating perspectives, each ownership format serves a marketplace niche and presents certain advantages and disadvantages. Retail executives must not lose sight of this in playing up their strengths and working around their weaknesses.

1.1.1 THE CHANGING STRUCTURE OF RETAILING

All dynamic developments in retailing, from the birth of departmental stores in the last century to the recent emergence of warehouse clubs and hypermarkets, have been responses to a changing environment. Changing customer demand, new technologies, intense competition, and social changes create new opportunities even as they shake up existing business. In the remainder of this century and into the next, the turbulent environment in which retailers operate will most likely accelerate the pace of change. Technological advances, changing demographics, and shifts in consumer preferences and shopping expectations will bring undreamt of changes in the structure of the industry.
1.1.2 DISCOUNT STORES-THE NEXT RETAIL REVOLUTION IN INDIA
Retailing is going through a transitional phase in India. The corner place grocery store, which was the only choice available to the consumer, is now giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains (Food World, Nilgiris, Apna Bazaar, subhiksha), convenience stores (Convenio, HP Speed mart), and fast food chains (McDonald's, Domino's). The emergence of new retail sectors has been accompanied by changes in existing formats, as well as the introduction of new formats for setting up these stores.

- Hyper marts are large supermarket with an area of 3500-5000 sq. ft.
- Mini supermarkets have an area of 1,000-2000 sq. ft.
- Convenience stores have an area of 750-1000 sq. ft.

In fact, the retail business formats have been changing very fast mainly due to technological influences. The Internet and the Web technologies have created a myriad of opportunities for the Web-based) business model of retailing. This has created a competition for the retailer with its own self. Besides, the challenge for the retailer now is to keep abreast of these latest formats in order to maintain and grow its share of market and compete within its band of retailers.

A key impact of technology has been provision of greater information to the customer. Hence, a big challenge for the retailer in the information savvy world of today is that the opportunities for price differentiation have nearly vanished. With the wealth of information which the Customer has, it becomes imperative for the retailer to differentiate itself qualitatively by superior customer services or better value for money to the customer.

For this purpose, the retailer has to constantly innovate in its customer services and redesign its value pack to the customer to keep ahead of its competition. Simultaneously, technology is also prompting efforts towards product and service differentiation. As highlighted in the point above on customer awareness, this throws up a major challenge to the retailer-service or store experience re-design and realignment with the support of latest available technologies and, thus, make the overall customer experience more satisfying and fruitful.

To this end, it is seen in the West that there is focus on customer convenience and services in the retail stores.

1.1.3 BHARAT PETROLEUM: MAKING A DIFFERENCE THROUGH INNOVATIVE RETAILING
Bharat Petroleum's efforts have all along been to build a profound understanding of customer needs and relentlessly work towards fulfilling these needs. Bharat petroleum is consciously working towards providing added value to customers, both in fuel and non-fuel areas.

Bharat Petroleum’s efforts began with remodeling and upgrading retail outlets to world-class standards back in 1996. Retail outlets have been equipped with state-of-the-art modern infrastructure, including the multi-product dispensers to pre-set price and
quantity of fuel and Electronic Air Gauges facilitating precise inflation of tyres. Attractive canopies are suitably designed to provide shelter and adequate lighting of the forecourt at most retail outlets.

On the non-fuel front, Bharat Petroleum has introduced the Errand Mall Concept successfully at select markets. Called the ‘In & Out’, these malls offer the customer a broad range of facilities and brands to choose from. ATMs, cybercafé, courier services, laundry, photo studio, music, fast food, greeting cards, bill payments, movies/entertainment tickets, etc. have made Bharat Petroleum’s retail outlets a happening place and indeed a rewarding experience for motorists.

Bharat Petroleum has also pioneered the concept of convenience stores at select petrol pumps that operate under the name ‘Bazaar’. These Bazaars provide a wide range of convenience items and fast food to customers in a clean, air-conditioned, and friendly environment.

Already, banks, airlines, and hotels are enabling customers to pay bills and plan their vacations at home through cable TV and videotext systems. It is now possible to buy a variety of products and services without even entering a store. Electronic inventory systems have spawned discount stores that offer the same merchandise as traditional department stores do but at much lower prices.

Specialty stores have carved out a niche by offering greater selection and better services than department stores with limited merchandise lines offer. Off-price retailers have made a year round business out of leftover merchandise and factory overruns. Retailing firms that once occupied a unique position, such as traditional department and discount stores, are now being squeezed by more innovative firms.

To understand the changes in retailing business in a better way, we will now examine the theories of change in retailing.

1.1.4 THEORIES OF STRUCTURAL CHANGE IN RETAILING
Retailing has always been a dynamic industry, and new retail firms have brought innovative approaches into retailing, changing the industry as they entered, developed, and grew. Home shopping clubs like those offered on cable TV channels are an example of how new retailers can introduce new business formats to the industry. These retailers, presently, are in an entry stage called development and introduction.

Time will tell whether consumers will accept this new way of doing business. Those retailers that are successful enough to survive the development and introduction stage enter the growth stage. The rapidly growing off-price retailer TJ Maxx is an example of a retailer in the second stage of development.

As the business grows, it moves gradually into the maturity stage, in which competition intensifies and strategies must be developed to maintain the existing market share. Most department stores today are in this stage of development. Stores that cannot compete effectively move into the decline stage and eventually go out of business.

The traditional variety stores such as Ben Franklin are now in decline. The entire process can take just a few years or decades, depending on competitive conditions. Understanding how and why this process occurs is essential for success in the industry. We will examine
three theories of how firms change and, in doing so, change the industry, although the theories differ, they speak about the same problem. In retailing, change is not a matter of chance; it is a virtual certainty.

1.1.5 THE WHEEL OF RETAILING
The wheel of retailing is one of the better known theories of structural change in retailing. It was proposed by Macomb McNair at Harvard University. It is basically a theory of cyclical or circular development. The wheel of retailing concept describes how retail institutions change during their evolutionary life cycles. New retailing institutions enter the market as low-status, low-margin, and low-price operations.

As these retailers achieve success, attempts are made to increase their customer base and sales. Products are upgraded, facilities are improved, and new services are added. Prices and margins are increased to support these higher costs. New retailers enter the market to fill the low-status, low-margin, and low-price niche. The cycle begins again. Hence, the retail store types pass through stages of growth and decline.

A retail store type emerges, enjoys a period of accelerated growth, reaches maturity, and declines. The wheel of retailing theory has been criticized because it does not explain all changes in retailing. In fact, many stores do not begin as low-price, low-service outlets.

1.1.6 THE DIALECTIC PROCESS
A second theory holds that retailing evolves through a dialectic process—the blending of two opposing store types into a superior form. For example, specialty stores offer specialized merchandise, a wide array of services, and attractive surroundings to a large and diverse market.

The blending of these two formats produces the specialty discount store. Silo, Home Depot, and Highland Superstores offer both a wide array of customer services and a broad assortment of specialized merchandise in attractive surroundings.

1.1.7 NATURAL SELECTION
According to the theory of natural selection, retail stores evolve to meet changes in the micro-environment. The retailers that successfully adapt to technological, social, demographic, economic, and political/legal changes are most likely to grow and prosper. The variety store is often cited as an example of a retail format that failed to adapt to changing times.

Today, these once successful retailers have almost died out. In contrast, television home shopping networks are likely to expand and grow because they are responding to changes in the lifestyles of the Consumers.

Because it takes into account macro-environmental forces, the theory of natural selection is more inclusive than those of the wheel of retailing and the dialectic process, which are based solely on a profit-cost analysis. Yet all three theories suffer from a lack of
emphasis on customer taste, wants, desires, and expectations. By gravitating to those stores that best meet their desires and needs, and shunning those that do not, consumers exert a powerful force on the evolution of retailing as does any other part of the macro-environment.

The retailers will succeed only by knowing their customers well. Consumers expect retailers to provide timely and fashionable merchandise at a convenient location and at a reasonable price. They expect value not only in the goods they buy but also in the total shopping experience, which includes pleasant atmospherics, well-trained and courteous salespeople and special touches like live entertainment.

1.2 ELEMENTS OF RETAIL ORGANIZATION

1.2.1 INTRODUCTION

Changing lifestyles are prompting changes in the retail environment. Paucity of time and an increase in disposable incomes have created a need for new types of retail formats. This means that manufacturers and retailers will have to become better at knowing their customers and predicting their needs and wants.

As the socio-economic structure in India changed so did the field of retailing. A once unorganized sector became transformed into an organized sector in the last decade of the 20th century as companies, both old and new, entered the arena.

High volume malls, shopping outlets, supermarkets and hypermarkets mushroomed, requiring the application of modern management techniques to run them efficiently and effectively. Retail success in today’s competitive environment is all about getting the right product to the right place at the right time, at the lowest cost possible. This requires retail managers to be adept at planning, merchandising, pricing, and promotion.

Retail Management presents the subject of retailing from both academic and pragmatic points of view. It discusses retail concepts and practices through contemporary examples to provide insights to students and managers. An organization is a formal structure of roles and positions put in place to achieve some specific goals. The structure of a retail organization defines the role of employees and the way in which the organization functions. To design an effective retail organization structure, managers/owners must define store objectives, identify the tasks, classify the tasks and jobs, and assign responsibilities and authority to various positions, and define the relation between them.

Organizations can have flat structures or vertical (tall) structures. A flat organization structure has only one or two levels of management, whereas a vertical organization has more than two levels of management.

Independent stores, department stores and chain stores use different organization
structures to facilitate their operations. Department stores use the basic Mazur plan with some modifications to design their organization structure.

The organizational structure of a retail store will vary by the size and type of the business. Most tasks involved with operating a retail business will be the same. 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, the 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.

In order to define the store's organization, start by specifying all tasks that need to be performed. Then divide those responsibilities among various individuals or channels. Group and classify each task into a job with a title and description. The final step is to develop an organizational chart.

1.2.2 RETAILING STRUCTURE
The following is a brief outline of some of the divisions in a retail organization.

Owner/CEO or President

Store Operations: Management, Cashier, Sales, Receiving, Loss Prevention
Marketing: Visual Displays, Public Relations, Promotions
Merchandising: Planning, Buying, Inventory Control
Human Relations: Personnel, Training
Finance: Accounting, Credit
Technology: Information Technology

As the store grows and the retail business evolves, the dynamics of the organization's structure will change too. Therefore it is paramount to redesign the store's organizational chart to support the decision-making, collaboration and leadership capabilities that are essential during and after a growth period.

The retail industry is undergoing dramatic changes because the consumer, the competitors and costs of doing business are all changing at an increasing rate. Given than the retail environment is changing so quickly, evolutionary change within a retail organization will not be enough. More dramatic change is required. The first step in leading change is understanding the difference between incrementalism and real step change.

**Incremental change** is the fine-tuning of operational practices and policies. These are improvements made every day usually instilled as culture to constantly improve that which already exists. It is usually focused on productivity improvement and cost reduction. It rarely focuses on top line revenue growth. Incremental improvement has proven to improve day-to-day execution, is low risk, but does not address root cause issues.

**Evolutionary change** gets at a deeper level of change and requires more resources and planning for success. It has higher risk and higher rewards. Reducing cycle times by 50% or removing 30% of the man-hours in a given activity are typical goals.
Implementing major cross-functional initiatives like Quick Response, floor-ready merchandising, and changes in the supply chain structure are all good examples of important evolutionary change. Leading retail organizations who have successfully implemented this level of change had to create “special work teams” to focus on the task and break out of the traditional organization to achieve success.

**Revolutionary change** has touched only a few in retailing thus far and can be more often seen by businesses that are “new” to retailing. Dell computer changed the way computers are sold when they began selling them directly to businesses over the Internet. Gateway is changing the way consumers “buy” personal computers by leasing them for $49.99 a month and trading up to a new computer every few years. These are changes with dramatic re-direction to achieve “order of magnitude” change. Similar to Lockheed Martin, dramatic change results in dramatic results. Dell computer sells a million dollars a day in computers over the Internet and Gateway is building a lock on consumers to “renew” with Gateway anytime they upgrade their computer! These organizations were not encumbered with traditional thinking and traditional retail organizations and are leading the market.

Some of you reading this will continue to evolve, and continue to survive in a competitive environment. Some of you will not evolve, and will be consolidated into other companies. A few of you will break from the pack and create revolutionary change in your organization that redefines your company to become or remain market leaders.

The key to capitalizing on a dramatically changing environment is to ORGANIZE YOUR PEOPLE SO THEY CAN ACCEPT, EMBRACE, and LEARN FROM CHANGE. The revolution starts with changing our organizational mindset from fixed organizations and trying to slot people into boxes on charts and move to a more fluid changing organization. In the next few pages we will discuss why a more dynamic organization is needed for the future and describe how it can be created.

### 1.2.3 WHY IS A DYNAMIC ORGANIZATION NEEDED FOR THE FUTURE?

Just look at the world we operate in and its pace of change.

**Competition** used to be the guy next door or down the mall. Now competition comes from around the world, from developed industrial countries to emerging nations; from large economic powers to small players; from multinational conglomerates to niche marketers.

**Government and Politics** used to keep borders closed with strong barriers to entry. Now open trade has become the driving force. Economic trade has replaced military might as the base of power.

**Telecommunications** used to require wires and was highly regulated. Now competition is driving advancement in Telecommunications at an exponential rate of change. More than 10 million fax machines have been added to homes in the last 10 years, while the number of e-mail addresses has grown by more than 26 million. More than 12 trillion voicemail messages we left in voice mailboxes last year.
Production Standards for manufacturing quality are having changed dramatically and the expectation for quality from consumers is ever increasing.

Assets used to be hard bricks mortar, things that were capital intensive – today, the real wealth creating assets are soft – information, imagination, people, brands - things the accountants have yet to figure out how to value.

AND organizations have changed, from highly centralized and hierarchical to fewer layers and greater autonomy.

Changes specific to retailing are also affecting our environment. In fact, some aspects of retail have changed so much that they have come full circle. For example, downtown shopping gave way to malls in the 1960s and 1970s, but today shoppers seeking simplicity and convenience are opting for downtown and neighborhood outlets. Pricing used to be simple; sales occurred twice a year to make way for the next season’s goods. Today, there is a sale every day, which has led to confusion and frustration for consumers. KSA’s Consumer Outlook study showed that 90% of consumers surveyed believe that if pay “regular” price for a product, then they have paid too much.

Pricing is confusing to consumers – it has been such a game in retail that the customer does not TRUST prices. However, simplicity in pricing is making a resurgence today – we are seeing retailers who are building strategies for pricing that may enable them to sell more at “first” price. In some cases that mean developing methods to test pricing elasticity in new products, learning which products EDLP works, taking more dramatic but few markdowns when clearing merchandise and developing ability to price differently in different markets. Simplicity in pricing and pricing integrity has come full circle. It is important because it builds trust with customers.

Shopping venues and pricing are just two of many changes. Along with all of these changes, organizations have evolved to deal with them. Similar to Henry Ford’s creation of the assembly line by organizing his workers into small repetitive tasks with a single specialization; retail organizations are now organizing as functional specialists, with the organization sliced into smaller and smaller divisions of responsibility to manage what has become an increasingly complex business. That has been a vitally important change that has been necessary to manage the ever-increasing size and complexity of retail chains. There is risk in slicing jobs into ever-smaller tasks and more specialization. The downside is people in the retail organization could lose the perspective of the total business. They could lose their effectiveness as an overall business entity focused on serving the consumer. Like assembly line workers, retailers could find their employees understand one small repetitive task, but lack understanding the total picture of retail functions.

1.2.4 THE CHANGING ROLE OF THE BUYER
As an example of how jobs have changed is today’s role of the buyer. The buyer used to be the business driver. In the mid 1980s and before it was easy for a buyer to be in touch with their stores and customers. Buyer’s offices were near the sales floor. It was easy to
monitor activity and sales. Just walk from the office to the sales floor to get firsthand information.

When buyers selected merchandise, they could visualize how it would look in the store. When they distributed the quantities she knew the differences between the stores: which had plenty of fixture space, which had small stock rooms. They could visualize it because they visited those stores. A buyer may not have had good detailed information in those days; but they saw the whole picture from buying in the market to customers buying in the stores. The one big difference that made all this possible was that a chain of 25 stores was considered large!

Today, chains are not 25 stores; they are 2500 hundred stores and are not in one city or region, but all over the country and all over the world. To be a buyer of that many stores, companies have had to divide up the responsibility. Now there are product developers, sources, selectors, planners, allocators, distributors and this is compounded even more by subdivision of categories.

A recent conversation with a buyer for a chain of several hundred stores says that her job has become one of selector of product. She spends most of her time trying to pull information together from a dozen or so different reports, creates several of her own excel spreadsheets to figure out how much to buy, then hands off the buy quantities to some else who tracks the delivery and ultimately distributes the product. Through the series of handoffs, each position involved sees only a part of the buying and selling process.

If retailers continue down this path of more specialization, retailing will move further away from the buying function developing as a true business driver. Rather than dividing the job to handle the large number of stores, perhaps the number of stores should be divided to keep the wholeness of the job. What if the buyer’s job, with the full range of responsibilities, were kept whole but for a smaller cluster of stores? A smaller group of stores that a single person can get their mind and activities focused on. Wouldn’t that be better for the customer and for the career development of the individual?

1.2.5 THE CHANGING ENVIRONMENT
The dramatically changing issues in serving consumer needs affect the way we need to organize:
Consumers are far more demanding. They are more diverse. They want more choice, but do not want to be confused with too many choices. They want more service, but do not expect to pay more for it. How do we develop and train our people to meet these increasing demands?

Technology now generates volumes of data. It connects retailers with suppliers throughout the supply chain and throughout the world. It connects retailers and suppliers directly into customers’ homes. Information is not controlled centrally; it is in the individual’s hands. How can we organize and use information to make fewer employers more productive?
Scale is a constant challenge, stores are bigger, and chains are bigger. It is not just scale of economy; it is also scale of information that has become more intense. How do we structure bigger organizations and still remain nimble in the marketplace, responsive to individual consumer needs, and attentive to individual employee needs?

Retailing has evolved in an incremental way to respond to these changing forces, but will that be enough to support the future needs of the industry?

According to the conversations we have with CEO’s this evolutionary change is not enough. CEO’s and presidents have shared frustrations over the deficiencies and problems with the current state of the retail organizational development.

The big question they pose is where will future leadership come from?

1. The retail industry is not attracting the best college graduate candidates into the industry.
2. Decisions are being made independently not on an integrated basis - The merchandising processes have too many handoffs. This has two problems. First, there is no accountability. Second, no one gets to see the total picture and a failure in developing well rounded business people.
3. The existing organizational structure is not market opportunity focused, it’s too rigid. That means large organizations have a difficult time reacting quickly and being nimble. Even at the most senior levels of organizations, it is difficult to create a team to focus on a special project. This is especially challenging where the solutions require a cross-functional team.

1.2.5.1 REVOLUTIONARY CHANGE
The changes in front of us promise to even more dramatic. Evolutionary change will not be enough to meet the needs of the future. The speed of change will be too great. The key to future success is in revolutionary thinking. IT WILL TAKE REVOLUTIONARY CHANGE TO COMMAND MARKET SHARE IN THE FUTURE …TO BE DOMINANT … EVEN TO BE A SUCCESSFUL COMPETITOR
The reality is that about half of today’s retail organizations will continue to evolve, they will follow the leader. About a fourth will go out of business due to a failure to change and adapt. But a few will break from the pack and become real leaders through revolutionary change and be market leaders dominating their market segment.

1.2.5.2 EXPONENTIAL CHANGE
Why can’t we just stop where we are and just improve as we go along?
Why can’t we wait and see what happens and react as we see market conditions unfold?
Because the speed of change is going to increase exponentially. It is not any one stream of change that you have to worry about – it is the confluence of several streams of change that is driving the need for revolutionary action.
Think about how these major drivers of change will impact your business and your organizations.

1. Diversity of people and their values; diversity in age, gender, and cultural affiliation in consumers and employees alike
2. Information management and technology
3. Competitive innovation – cycle time reductions, additional services, SKU explosion, and strategic alliances or cooperative agreements among what may have previously been competitors.

These are only a few of the many drivers of change and their implications highlight the need for organizations that are able to learn more quickly, accommodate more variety, and manage through rapid change more easily than our conventional hierarchical organizational structures have allowed.

1.2.6 CHANGING THE ORGANIZATION FRAMEWORK

Most organizations today remain outdated, rigid, and not very flexible. Many of the major opportunities for improvement today are not limited to one dimension of the business. Rather they cross several functional areas such as stores, merchandising, logistics, and information systems.

Take as an example a retailer that has an opportunity to develop a new replenishment program with a major supplier. This new program has the effect of improving inventory turnover, increasing the sell through, and maintaining higher margins.

The retailer fields a team of resources from various functions, puts someone in charge and sends them off on their mission…on a part time basis. They still have their “day jobs”. When the project is over, the participants in this taskforce will continue in their current positions.

The results of this group failed to achieve any benefit despite more than six months time invested. Sometimes task forces trying to drive change are successful, but many fail for a variety of reasons:

- Lack of sponsorship from senior management for the job to be done
  They are formed as a group, yet individuals still report into different departments
  It’s an added part time commitment
  Their rewards, recognition, first accountability, and validation are still in their “primary” job
  The uncertainty related to balancing priorities of their old job versus new task may keep them from doing their best.
- Anxiety because of the lack of rules and norms because is not a normal role or process.

Some companies try to create new structures in the organization for these initiatives. This helps with validation, accountability, and sense of purpose. The problem is integrating these individuals back into the organization. They often don’t fit in as well. They are no longer challenged by the old job. This occurs because special groups formed
to focus on advancing the organization, or to learn something new, or implement something quickly are typically formed outside the organization. The key to making your organization nimble and able to learn and change quickly is to organize these groups within the organizational structure.

To be a leader, revolutionary change in the retailing organization is needed. To achieve revolutionary change retailing executives need to understand the new realities of management, and how these realities differ from old conceptions:

1.2.7 THE NEW REALITIES OF MANAGING
It used to be about managing resources within your organization. In the future, it will be about managing skills and talent that is inside and outside of your organization to allow for temporary ins and outs of needed talents only for the time period that you need them.

It used to be about how you organize your people. In the future, it will be about how you organize your information and the people around that information flow.

It used to be about making decisions with little information. Now and in the future it’s about drawing conclusions from massive amounts of information.

It used to be about you being in the business from womb to tomb. In the future people will move in and out of businesses more often and we need to make it easy for the organization to rotate new talent in and out with little interruption of ongoing business teams.

It used to be about hiring a group of functional specialists, the future requires a group that is focused on the big picture, the whole enterprise that is your business.

It used to be about periodic changes and re-organizations. In the future, organizations will be in constant motion where the process of change is not an infrequent jolt to the status quo, but rather a daily process of evolution. An organization that is:

- Borderless
- Fluid
- Creative
- Innovative
- Grows and develops the human resources within it

The future organization will be one that embraces change.

1.2.8 A NEW MODEL FOR ORGANIZING
The organization of the future has several critical components.

The executive ring circles the whole organization. This is where you set overall direction and policy for your company as it relates to business concept, merchandise strategy, IT strategy and logistics strategy.

Larger circles in the center represent the core competencies of stores, merchandising, and logistics. This is where the business is executed on a day-to-day basis.
There is an information web behind it all. This represents your information systems network, which ties all of this together. It permeates every part of the organization and enables easy exchange and access to data from all parts of the organization.

The small squares represent satellite teams that are comprised for specific periods of time to carry out specific tasks and are then disbanded. Resources come from all parts of the organization to field these teams and may go back from where they came or go back to other parts of the organization when completed.

The triangles inside represent the suppliers who are inside and a part of your organization on a daily basis.

The outer small spheres are your employees who are resident in your alliance partner’s organization.

Draw a diagram based on the above text contents?

This is a model for creating an organization that can continue to run its core business well, and is particularly skilled in bringing new business into reality. The key for survival in an over retailed, highly competitive market IS NOT generating new ideas. Survival and market leadership IS the ability to bring INTO USE new products, processes, and services.

As an example, here is how a new product line might be brought into use in a more efficient and effective manner.

It’s spring and you introduce a new product line. A very low cost toy, with high margin opportunities. You begin with a modest assortment in all your stores.

A week goes by with preliminary reports that this is a good seller. Weeks two, then three pass, and you start to see flash reports coming from your information network alerting you that not only is this product a success, but early trend and forecast reports indicate an opportunity for a 20 fold increase in volume on this product and it could further influence sales on related products.

Preliminary information is distributed over your network with key information on sourcing and supply chain parameters.

Following your routine procedures, a team is assembled that day with representatives from merchandising, stores, logistics, and information systems. These individuals immediately transfer their current assignments to others as per policy. They are charged and have action authority to take necessary steps to find or create sourcing to re-stock all stores in one week, with back flows coming over the next 12 weeks that will provide that volume necessary. They also line up potential future commitments for further orders on demand with sources to lock up capacity before others have recognized the opportunity.
The team stays together as a unit to manage the process from production through purchase by consumer and remain as a team for several months. Marketing programs are developed to advertise your expanded position in this new hot product.

This new toy phenomenon is a huge hit and carries through the Christmas season. The additional volume represents a 20 million dollar impact on your business for the year.

As the Christmas season winds down, so does the flurry surrounding these products. You transfer the management of this product flow into the normal merchandise line management process.

The team is disbanded and returns to prior jobs or often to new jobs in their old areas or in other parts of the organization.

A store ops person goes back into the stores organization and assumes their old responsibilities, which have been shared by a team during this interim.

A merchant moves into the logistics operations to broaden their knowledge of supply chain management issues.

An information systems resource moves into merchandising to expand on the tools the team has developed in this opportunity.

And the process is repeated frequently to respond to new product ideas, consumer insights gained, sales results, new alliance opportunities, and more.

Your organizational structure, policies, and culture created a dynamic attack on a focused opportunity without creating chaos. The ability to respond to a specific, short timeframe, multi-million dollar opportunity was planned for because of the way you were organized. It wasn’t price, service, or product as a single issue, but the response to an opportunity.

1.2.9 CREATING YOUR DYNAMIC ORGANIZATION

How do you build this structure where everything is moving and changing? Let’s begin with the executive ring. A place to make policy, set strategic direction for the core constructs of the business, stores, logistics, merchandising and information strategies. Here are very few people here. It is more a place to come together as a senior management team to set direction. These rings move as you constantly monitor the direction of the company. This is the place to focus on overarching trends and policies that affect key areas of the business.

The inner spheres represent your core disciplines – and these may be different for different organizations. They would typically represent merchandising, logistics and store operations. They represent the bedrock of your delivery system in meeting consumer’s needs.

These core disciplines add stability. 70% of the people resources in each sphere will have a career in these functions. They will start out, grow and develop in these spheres – the goal is develop people with specific functional expertise – but each spheres will have
30% of the people resources whose core skills come from another discipline and yet they are permanent members of these work teams.

Demonstrating by example, the stores organization is made of a majority of individuals that are groomed to have store operating skills. Another 30% of the stores organization is made of individuals who have skills from other parts of the business such as logistics, merchandising, information systems - but who are permanently assigned to the stores organization. So as decisions are made within the stores operations – it is with the functional expertise of stores blended with the perspective of these other disciplines. This helps if you are making a decision in the store about a plannogram. That decision relies not only merchandising, but also affects stores, logistics and your suppliers.

- Merchandising - what products and services do our customers expect – in what quantities and at what price?
- Logistics - how to flow and transport from source to shelf?
- Store operations - how to serve the customer and present the merchandise assortment?
- Suppliers – how to provide the product, when and where it is needed?

To arrive at the right answer, a group comprised of multiple perspectives is needed.

**Information linkage** and the management of information is not its own core discipline in this new organizational construct. It is a component of each of these spheres. It is not a stand-alone organization which is integrated in each core discipline. It is tied together by the overall strategic architecture to links the information between these groups.

This is a significant departure from today’s traditional organizational structure of a separate function for IT. Today’s structure does not work well. For example, retailers have been trying for years to develop forecasting systems to drive order quantity. They have tried solving that with a separate IT group with merchants providing input after the system is developed. The best solutions in the industry to date have been developed by true collaborative project teams including, technologists, merchants, logisticians, and mathematicians.

**Managing Resources on the Outside**
The base structure is comprised of the executive rings and the core disciplines. These help to organize internal activities; however, increasingly the success of a retail organization is dependent on the success of its supply chain. Outside linkages with customers and suppliers are critical. How do retailers more effectively manage resources outside of their four walls?

The key to breaking from the pack and really growing sales in the future is the ability to rapidly seek consumer insights and respond in lightning speed to the needs of the customer. Going forward, the competitive difference will be in using **satellite teams**.

These are teams that are fielded from the core disciplines of your operations; from merchandising, stores, logistics, and IT. They are formed to specifically focus on
external relationships. Some will be focused on consumers to gain insights on specific product or service needs, methods to build customer’s loyalty, and frustrations that cause customers to not shop our store or make a purchase once they are in our store.

To grow the top line you need do something different than the competition that consumers care about. Developing a group of people that can focus on identifying unmet needs and gaining consumer insights is a big step forward.

Bringing on a successful new product is one example. Sears had a gangbuster item in the Robogrip. It is a pair of pliers that is self-adjusting, allowing truly one-handed operation. The tool is faster, stronger, and easier to use than any other pliers on the market.

When these were first introduced, Sears decided to offer the product on the Internet. Based on the number of hits they received, Sears knew they had a winning item. They marshaled a team with buyers, logistics, and marketing people. They had Bob Villa using the product on TV by early December and the Robogrip was a great Christmas item.

That team made the success of the product possible. Nobody needs new pliers, but here was a superior product that created a reason for consumers to buy something new. Even better, Sears quickly assembled a team that could make a good item into a tremendous business that was exclusive to Sears.

Other satellite teams are formed to work with suppliers. These teams help suppliers understand how to best serve your retail organization. Areas of collaboration typically include; product development, lead-time, production scheduling, and supply chain management of inventory.

The membership of these satellite teams may include suppliers, consultants, competitors, and others that move in and out of the organization for specific roles and defined time periods.

One of the new skills for success in the future will be the ability to manage resources outside of our organizations – your resources that are working with partners elsewhere developing new exclusive products and opportunities.

All of this is a fundamental shift in thinking – it is not the drive toward a stable organization - it is a drive toward an organization that embraces change and functions specifically to make adapting to change easy.

Key points of differentiation from your competition come from the choice of satellites.. These will be different depending on your business strategy and position in the marketplace. For example:

- Some retailers will build competencies and satellite teams in brand building and product development
- Others will use information to connect to their customers and to collapse their supply chain
- Others still will use speed to market and store experiences

These teams will have different membership constructs - some will be blended from the core competency teams some will be people from outside our organization, such as your suppliers. A project with a retail chain in England involved in a major redesign of the buying process for a chain of stores. In creating the teams of people who were going to be a part of the project – seven of their major suppliers were asked to provide a full time participant who would work in the retail business as a part of this team for nine months. This blending of perspective provided some great insights on how to design a better process. The result of this effort was an increase in fill rates from supplier to retailer from 70% to 90%.

These satellite teams have some very important characteristics:
- Membership comes from across the company
- Serve a specific need for a specific time period and most importantly, disappear - they become a key element to enabling your company to gain consumer insights, learn quickly, execute in a highly responsive manner - deliver a result
- Satellite teams will offer the opportunity to cross-train in several disciplines and grow the future leaders of the executive.
- Satellite teams are a part of the regular career progression of an individual and made up of people at different levels of experience
- Satellite teams are the power tool of senior management to quickly focus resources on the key issues

Identifying what the satellite teams should focus on is the key to creating competitive advantage in the changing market place and the primary vehicle to quickly respond to the changes in the market place.

**1.2.10 CLASSIFICATION OF RETAIL UNITS**

Conceptual classification of a business unit provides the marketers with strategic guidelines, useful in the design of retailing strategy. Besides, retail businesses are extremely diverse, and there are quite a few types of retail units. Therefore, retail units are classified on multiple dimensions such as margin, turnover, size, type of product sold, nature of ownership, geographical locations, kind of customer interaction, level of services provided, etc.

**Bases For Classification Of Retail Units**

Retail firms can be classified into various format types based on following criteria:

- **Nature of ownership**: The three basic legal forms of ownership are sole proprietorship, partnership, and limited liability Company (private and public).
• **Operational structure**: The retail operational structures can be classified into the following three types: the independent trader (usually operating only one retail outlet); the multiple or chain store; franchising and the consumer co-operative.

• **Length and depth of merchandise**: Retail units differentiate themselves on the basis of the range and variety of merchandise they maintain in their stores. Some retail businesses offer a wide range of goods. On the other hand, some deal only in a specific product category with a minimum range of merchandise within that product category.

• **Nature of service**: Lately, with the growing emphasis of retailers on service mix in their entire retail mix, retailers are classified on the basis of level and kind of services extended by them to their customers. Recently, in India many retail outlets have been converted to or built as self-service units, and are providing services such as delivery, credit, gift-wrapping, repairs, etc. Hence, many former self-service retailers are now looking at ways of gaining competitive advantage by adding new customer services.

• **Type of pricing policy**: Some retailers choose to emphasize the low price rather than the service element of their retailing mix. Others choose to price their offerings above the competition, knowing that they will generate business on the basis of some other attribute such as convenient location, premium merchandise mix, or distinctive image.

• **Type of retail location**: Under this, retailers are classified according to their store's geographical location. With the increasing cost of central business district centre sites, limited parking facility, and traffic congestion, many retailers have out-of-town locations, whilst others have preferred to locate in 'cluster' locations in downtown centres.

• **Method of customer interaction**: Traditionally, most of the retail interactions or transactions have been conducted by face-to-face contact in retail stores. However, a significant number of retailers are generating retail sales by non-store retailing operations such as mail order catalogues, telephone selling, vending machines, to-door selling, or mobile vendors.

Some of the formats that emerge out of these classification schemes overlap but they are all relevant, given the specific marketing situations. The conventional and most common classification of retail organizations is based primarily on the nature of products, operational structure, and range of merchandise.

**Retailers Classified on the Basis of Ownership**

One of the first decisions that the retailer has to make as a business owner is how the company should be structured. This decision is likely to have long-term implications, so it is important to consult with an accountant and attorney to help one select preferred ownership structure.

In making the choice, the following aspects need to be considered:

• Retailer's vision regarding the size and nature of his business. The level of control he wishes to have
• The level of 'structure' they are willing to deal with
• The business's vulnerability to lawsuits
• Tax implications of the different ownership structures
• Expected profit (or loss) of the business
• Whether or not one is required to re-invest earnings in the business. Retailer's need for access to cash from the business for personal use

We now take an overview of the four basic legal forms of ownership for retailers:
1. Sole proprietorship
2. Partnership
3. Joint venture
4. Limited liability company (public and private)

Sole Proprietorships
The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has the day-to-day responsibility for running the business. In this case, the retailer owns all the assets of the business and the profits generated by it. He also assumes complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, the retailer is one and the same with the business.

Advantages of Sole Proprietorship
• Sole proprietorship is the easiest and least expensive form of ownership to organize.
• Sole proprietors are in complete control and, within the parameters of the law, may make decisions as they see fit.
• Sole proprietors receive all income generated by the business to keep or reinvest.
• Profits from the business flow directly to the owner's personal tax return.
• The business is easy to dissolve, if desired.

Disadvantages of Sole Proprietorship
• Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
• Sole proprietorship may be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
• Sole proprietorship may have a hard time attracting high-caliber employees or those that are motivated by the opportunity to own a part of the business.
• Some employee benefits such as the owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

Partnerships
A partnership is a common format in India for carrying out business activities (particularly trading) on a small or medium scale. A business unit is generally carried out through a partnership. There is no restriction on a company's participation in a partnership, but this is rare in practice. In a partnership, two or more people share ownership of a single business. As in case of proprietorships, the law does not distinguish
between the business and its owners in partnership. The partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, or what steps will be taken to dissolve the partnership when needed. It is hard to think about a 'break-up' when the business is just getting started, but many partnerships split up at crisis times and unless there is a defined process, there will be even greater problems. They must also decide up-front how much time and capital each partner will contribute, etc.

**Advantages of a partnership:**
- Partnerships are relatively easy to establish; however, time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly to the partners' personal tax returns.
- Prospective employees may be attracted to the business if there is some incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

**Disadvantages of a partnership:**
- Partners are both jointly and individually liable for the actions to the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.

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### 1.3 OBJECTIVES AND TASKS

**1.3.1 CONCEPT OF RETAILING**

Which business considers every individual as a customer? Which business accounts for less than 10% of the worldwide labour force and is still the single largest industry in most nations? What is common between Wal-Mart, Amazon and the small kirana stores that dot your neighborhood? The answer is retailing, the last link in the chain of production, which begins at the extractive stages, moves through manufacturing and ends in the distribution of goods and services to the final customer.

What is retailing? The distribution of the consumer products begins with the procedure and ends with the ultimate customer. Between the producer and the customer there is a middleman- the retailer, who links the producers and the ultimate customer. Retailing is defined as a conclusive set of activities or step used to sell a product or a service to a customer with supplies to all manufacturers. The word retail is derived from the French word retailer, meaning “to cut a piece off” or “to break bulk”. A retailer is a person, agent, agency, company or organization which is instrumental in reaching the goods merchandise or services to the ultimate customer. Retailers perform specific activities such as anticipating customer’s wants, developing assortments of products acquiring market information and financing.

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Retailing has become an intrinsic part of our everyday lives that it is often taken for granted.

The world over retail business is dominated by smaller family run chin stores and regionally targeted stores but gradually more and more markets in the western world are taken over by billion dollar multinational conglomerates such as Wal-Mart, Sears, McDonald’s, Marks and Spencer. In today’s competitive environment retailers have redefined their role in general and in the value chain in particular. Retailers act as gatekeepers who decide on which new product should find their way to the shelves of the stores.

1.3.2 CHARACTERISTICS OF RETAILING

Retailing can be distinguished in various ways from other businesses such as manufacturing. Retailing differs from manufacturing in the following ways:

- There is a direct end-user interaction in retailing
- It is the only point in the value chain to provide a platform for promotions
- Sales at the retail level are generally in smaller unit sizes
- Location is a critical factor in retail business.
- In most retail businesses services are as important as core products.
- There are a larger number of retail units compared to other members of the value chain. This occurs primarily to meet the requirements of geographical coverage and population density.

1.3.2.1 DIRECT INTERACTION WITH CUSTOMER

Retail businesses have direct interaction with end-users of goods or services in the value chain. They act as intermediaries between end users and suppliers such as wholesalers or manufacturers. Therefore, they are in a position to effectively communicate the response and changing preferences of the consumers to the suppliers or the sales person of the company. This helps the manufacturers and marketers to redefine their product and change the components of its marketing strategy accordingly. Manufacturers require a strong retail network both for reach of the product and to obtain a powerful platform for promotions and point of purchase advertising. Realizing the importance of retailing in the entire value chain, many manufacturers have entered into retail business by setting up exclusive stores for their brands. This has not only provided direct contact with customers but has also acted as advertisement for the companies and has provided the manufacturers with bargaining power with respect to other retailers who stocked their product. Retailing provides extensive sales people support for products which are information intensive, such as in the case of consumer durables.

1.3.2.2 LOWER AVERAGE AMOUNT OF SALES TRANSACTION

The average amount of sales transaction at retail point is much less in comparison to the other partners in the value chain. Many consumers buy products in small quantities for household consumption. Due to lower disposable incomes, some consumer segments in India even buy grocery items on a daily basis rather than a weekly or a monthly basis. Inventory management becomes a challenge for retailers as a result of the many minor
transactions with a large number of customers. Hence, retailers must take care of the average levels of stock, order levels, and the popularity of different brands. The small amount also means that the retailer has to keep a tight control on costs associated with each transaction in the selling process. Credit verification, employment of personnel, value-added activities like bagging, gift wrapping, and promotional incentives all add up to the costs. One way to resolve this is for the retail outlets to be able to attract the maximum possible number of shoppers.

1.3.2.3 POINT OF PURCHASE DISPLAY AND PROMOTIONS
A significant relevant chunk of retail sales comes from unplanned or impulse purchases. Studies have shown that shoppers often do not carry a fixed shopping list and pick up merchandise based on impulsive or situational appeal. Many do not look at ads before shopping. Since a lot of retail products are low involvement in nature, impulse purchases of the shopper is a vital area that every retailer must tap into. Therefore, display, point-of-purchase merchandise, store layout, and catalogues become important. Impulse goods like chocolates, snack foods, and magazines can sell much more quickly if they are placed in a high visibility and high traffic location.

1.3.2.4 LARGE NUMBER OF RETAIL BUSINESS UNITS
Location of retail store plays an important role compared to other business units. Manufacturers decide the location on the basis of availability of factors of productions and market. Similarly, retailers consider factors like potential demand, supply of merchandise, and store image-related factors in locating the retail outlet. The number of operating units in retail is the highest compared to other constituents of the value chain, primarily to meet the needs for geographic reach and customer accessibility.

1.3.2.5 ROLE OF SERVICES IN RETAILING
Though shopping over the phone and through the Internet has increased rapidly in the past few years, the majority of Indian consumers still visit stores to shop. Stores remain popular because of the need of consumers to be able to see and test products; it is a means of social interaction, the opportunity to compare different brands, and impulse buying. The location of a store is also of great importance in the retail process. Since people are attracted to a particular store, retailers need to keep track of amenities like parking, extended hours of operation, and special play areas for children, wash rooms, trial rooms, etc. Besides, efficient customer service is required to make the customer feel comfortable and important.

1.3.3 ACTIVITIES OF RETAILERS
Retailers undertake various business activities and perform functions that add value to the offerings they make to their target segments. Retailers provide convenient location, stock, and appropriate mix of merchandise in suitable packages in accordance with the needs of customers. The four major activities, as shown in Figure 1.1, carried out by retailers are:

1. Arranging an assortment of offerings
2. Breaking quantity
3. Holding stock
4. Extending services

**Arranging Assortment**

An assortment is a retailer's selection of merchandise. It includes both the depth and breadth of products carried. Retailers have to select the combination of assortments from various categories. The assortments must include substitutable items of multiple brands, SKUs, and price points. They should be distinguished on account of physical dimensions and attributes, e.g., color or flavor. The small retailer takes assortment decision on the basis of his experience; on the other hand retailers from organized retailing depend on a detailed study of past trends and future projections.

Retailers need to consider certain factors while devising assortment plans for their stores: profitability associated with particular merchandise mix, store image, layout, and the level of compatibility between the existing merchandise. For example, Food World, a leading food supermarket positioned as a one-stop shopping centre, deals in multiple product categories along with all possible variants of brands, stock keeping units, and physical attributes in order to meet the expectations of their consumers and survive in the business. Whereas, Subhiksha, a grocery chain in south India has impressive assortments of only the fast moving brands and SKUs rather than all available variants in the market. Their assortment plan is governed by location, size, and store image (value for money) of their stores.

**Breaking Bulk**

Breaking bulk means physical repackaging of the products by retailers in small unit sizes according to customers' convenience and stocking requirements. Normally, retailers receive large quantities of sacks and cases of merchandise from suppliers to reduce their transportation costs. In order to meet their customers' requirements retailers have to break or arrange the bulk into convenient units. This entire function of the retailers adds value to the offerings not only for the end customers but also for the suppliers in the value chain. Even in the earlier days of generic and commodity-based trading most of the retailers used to perform this important function in the value chain. This function receives negligible attention from the retailers now due to the introduction of new product categories, such as FMCG and ready-to wear apparel.

**Holding Stock**

To ensure the regular availability of their offerings, retailers maintain appropriate levels of inventory. Consumers normally depend on the retailers directly to replenish their stocks at home. Therefore, retailers, on periodic basis, maintain the required levels of stock to meet the regular or seasonal fluctuations in the demand. Retailers need to maintain equilibrium between the range or variety carried and the sales which it gives rise to. Retailers have to face the negative consequences of holding unwanted levels of stock—for instance, too little stock will hamper the sales volume, whereas, too much stock will increase the retailer's cost of operation. Generally, in small towns of India most retailers have arrangements with the nearby warehouses to stock the goods. Some are so small that they have to stock only on the shop floor. Retailers in the organized sector, to a certain extent, are using effective software packages for maintaining adequate levels of
inventory. At the same time, retailers avail of just-in-time deliveries with the help of efficient consumer response systems, which reduces the burden of maintaining high levels of stocks.

**Extending Services**

Retailing provides multiple services to immediate customers and other members of the value chain. The set of services extended by particular retailers may be part of their core product offerings or it may be 'add on' to their product or service. Retailers offer credit, home delivery, after-sales services, and information regarding new products to their customers, thereby making the shopping experience convenient and enjoyable. At the same time, they provide stocking place, reach to the ultimate customers, and information about the concerned target segment to the suppliers. For example, Time Zone, the first organized retail chain of wristwatches in India, started by leading watch manufacturers Titan, set up in all its stores, service centres with proper equipment and trained manpower. This has not only diluted the relevance of service providers in the unorganized sector but has also enhanced the confidence of the customers in the retail services provided by the particular retail chain, as after-sales service is considered to be an integral ingredient of the watch purchase.

![Activities of retailers](image)

**Fig. 1.1 Activities of retailers**

### 1.3.4 SIGNIFICANCE OF RETAIL INDUSTRY

Consumer money drives the economy and retail is where consumers spend that money. Boutiques, restaurants, discount stores, mail order companies and retailers – these establishments are where consumers spend their hard earned money. When goods are put in the hands, or shopping bags, of consumers, retailers realize revenue- and so do the wholesalers distributors and manufacturers that make up the rest of the consumer goods
distribution chain. In addition retail transactions serve as a means for collecting sales tax, which support public services of all kinds.

Retail goods are traditionally divided into durable goods such as furniture, cars, and large appliances, which are expected to last at least five years and non durable goods which include food clothing and other categories far too numerous to mention but which eventually form the bulk of the stuff you see to makeshift tables at garage sales.

Retail industry provides immense opportunities to entrepreneurs and workforce as sales people and clerks the Industry also has opportunities for people interested in determining what goods will be sold, getting these goods to the right place at the right time, and managing the operations, finances, and administration of retail companies.

1.4 PRINCIPLES OF RETAIL ORGANIZATION

It is essentially the marketing concept of a customer-centered, company wide approach to developing and implementing a strategy. It provides the guidelines, which must be followed by all retailers irrespective of their size, channel design and medium of selling. The retailing concept covers four broad areas and is an essential part of the retailing strategy.

(a) Customer orientation: The retailer makes a careful study of the needs of the customer and attempts to satisfy those needs.

(b) Goal Orientation: The retailer has clear cut goals and devises strategies to achieve those goals.

(c) Value driven approach: The retailer offers good value to the consumer with merchandise having the price and quality appropriate for the target market.

(d) Coordinated effort: Every activity of the firm is aligned to the goal and is designed to maximize its efficiency and deliver value to the consumer.

The retailing concept though simple to adopt is not followed by many retailers who neglect one or more of the points enumerated above. There must be a proper balance of all the aspects of this concept for the retailer to achieve success. The retailing concept while important is limited by its nature as it does not cover the firm’s internal capabilities or the competitiveness of the external environment. It however remains an important strategic guide. The retailing concept can be used to measure the retailer’s performance through three parameters: the total retail experience, customer service, and relationship retailing. The total experience refers to all the ingredients of a customer’s interaction with the retailer. This includes all activities from parking to billing. If some parts of the retail experience are unsatisfactory, the shopper may decide not to patronize that particular outlet. Therefore it is necessary for a retailer to ensure that every element in the experience must aim at fulfilling customer expectations. This experience means different aspects for different types of retailers—for an upper end clothing retailer this might imply the presence of plush interiors and air-conditioning while a discount store needs to have adequate stock.
1.4.1 LEADING CHANGE IN A RETAIL ORGANIZATION

Most of the changes in the retail industry have occurred over the past two decades. Now, more than ever, good leadership is necessary to keep retail organizations moving forward with rapid changes--demanded by this competitive age of communication technology. Managers must understand the dynamics of multiple leadership models and be able to communicate to all persons involved in creating and implementing organizational change. Likewise, frontline employees must be able to rapidly communicate the needs and shortcomings of the implemented systems of change in order for decision makers to diagnose and prescribe the proper remedies. Properly implemented change must occur through systemic participation at all levels of the retail organization with an understanding of the culture that promotes employee satisfaction within their own organization.

The ultimate goal of retailing is to bring together supply and demand; to provide consumers with a selection of goods and services that satisfy their needs profitably. During the last 30 years, retailers have made considerable progress on the supply side, developing sophisticated logistical systems to streamline product distribution, manage inventory, allocate shelf space efficiently, and replenish stocks on a just-in-time basis. Stores can now do a much better job of providing consumers with the right product at the right place at the right time.

The news is not as good on the demand side. Retailers continue to have difficulty creating shopping environments that engage consumers’ needs and convert these desires to purchases. One critical concern is with product proliferation and duplication. Manufacturers rely heavily on line extensions to increase volume, and retailers (often mistakenly) believe stocking more products means selling more products. This has led to an explosion in the number of products available in many retail channels. In the 1950’s, a typical U.S. grocery store carried about 5,000 different items; in the 1990’s, the number topped 30,000. Today, a super center carries upwards of 100,000 products! This dramatic increase in the number of products and the expanding footprint of retail stores has made it increasingly difficult for consumers to end their way through stores, differentiate between brands, and assess product quality. In a 2001 consumer survey reported by Marketing Week, 75% of consumers agreed, “These days there are so many products and services that it’s often hard to choose which is best for me.” Further, 78% of consumers said, “Companies like to pretend that their brands are really different, but actually there’s rarely any substantial difference between them.” The problem is magnified for complex products with short life cycles. For many high-tech products, shoppers are forced to digest volumes of information to understand what benefits these goods provide, how they operate, and how they perform relative to competitors. Sometimes there is no visible difference between competing brands because it’s the chip inside that determines product features. While navigating through the roughly 180 different models of televisions in a consumer electronics store, one customer noted, “It’s too many choices. You can’t just walk into the store and buy a TV these days. It’s like a research project.” Beyond the dizzying growth in the number of products on
store shelves, there has been a dramatic increase in the volume of in-store messaging and the number and complexity of consumer promotions. In order to receive a promotional discount, consumers may be required to use a loyalty card or to submit rebate forms to manufacturers or retailers. The high levels of message clutter make it difficult to navigate through the store. These issues are layered on top of the problems that have always plagued retailers, such as high employee turnover, long lines and poor service.

Such shopping difficulties have had a substantial negative impact on consumers. A recent Datamonitor survey found that 47% of consumers experience significant levels of stress. According to 1999 research by Sujan, Sujan, Bettman and Verhallen, 45% of the reasons consumers mention for being stressed relate to the in-store environment (can’t end desired product, long lines, messy shelves, pushy or slow personnel, parking), while 32% are choice-related (too many brands, deciding which brand is best, comparing information across brands, having enough product information). A study by Donovan, Rossiter and Nesdale revealed that consumers under stress will still make planned or Nondiscretionary purchases, however they won’t spend as much time or money on unplanned purchases. Purchase conversion rates have also suffered. It is common for 75-85% of specialty-store shoppers, and up to 95% of department-store shoppers, to leave stores without making a purchase. In a 2003 Chain Store Age/Cap Gemini study, two-thirds of the consumers surveyed said problems with the shopping experience had caused them to stop shopping or to shop less frequently at a particular store. Consumers have cut back on the time they spend shopping, spend less on discretionary purchases, and procrastinate longer when they need to buy an item.

1.4.2 WHAT IS RETAIL SHOOPABILITY?

The creative retailers featured in 40 Of the World’s Best Stores have successfully overcome these challenges to deliver superior retail shopability: the capacity to transform consumer needs and desires into purchases. This impressive feat is accomplished by marshalling all of an organization’s assets — people, places and practices — to deliver rewarding shopping experiences to customers. While the experience is different in every store, the result is the same for every shopper: customer delight. Store personnel may streamline the shopping trip, provide expert advice and assistance, or create a strong sense of community. Stores themselves may be community centers, mega-stores, spectacles or oases. Business practices may be focused on masterful marketing, powerful presentation, or spectacular service. But what defines a great store? One of the most striking features of many of these stores is their attractive appearance. The visual appeal goes beyond the unique design and aesthetic beauty of the retail space. They have the ability to engage shoppers by making a connection with the salient and latent needs that drive purchase. Each retailer understands his or her customers and presents an appropriate and appealing selection of merchandise. The store layouts, mixtures, lighting, and merchandising all call the customer’s attention to the products and their benefits, while reinforcing the retailer’s brand identity. And the stores keep the experience fresh by providing a steady stream of innovations — new goods and services, promotions, and special events — to entertain and delight shoppers.

A second distinguishing trait of many of the stores is their visual simplicity and transparency. A transparent store is one that is easy to navigate. When you walk into the
store and through the aisles, you see what there is to see. You immediately know if the store has what you want and where it’s located. Visual clutter is minimized. A transparent store is also one that consumers can understand. It feels familiar and comfortable. Products are organized in ways that make sense. The store layout and product presentation are consistent with expectations. Transparency must be balanced with a sense of discovery to hold shoppers’ interest, especially in stores that sell high-ticket, infrequently purchased items (e.g., home furnishings) or unexpected, constantly changing merchandise (e.g., dollar stores). A third and related theme is that the best stores provide a convenient and enjoyable shopping experience. Shoppers can enter the store, pick up what they need, and check out in a reasonable amount of time. Destination categories and promoted items are easily accessible and complementary products are located nearby. There are no physical obstructions and no long lines. Products are in stock and priced competitively so customers don’t need to comparison shop. The stores deliver an acceptable level of comfort even during the busiest shopping days.

1.4.3 THE 10 PRINCIPLES OF RETAIL SHOPPABILITY

This 40 Of The World’s Best Stores analysis — as well as an extensive review of prior academic and commercial research — identifies 10 principles that can help retailers
improve the shop ability of their stores, leading to increased sales and customer loyalty. The most effective application of these important business-building rules results when retailers and manufacturers work closely together to meet the needs of their shared consumers. In contrast to the often-misaligned past efforts of stores and their suppliers, these two groups must now cooperate to:

1.4.3.1 SHOW THE PRODUCT
The product is the focal point of the shopping experience. It’s what draws consumers into the store and energizes the shopping process. Retailers need to recognize the primacy of the product in the design of their stores and in the presentation of merchandise. Products should be clearly visible as consumers walk into the store and through the aisles. Fixtures should be selected and arranged to improve sightlines (e.g., by placing lower fixtures in the foreground). Products should be displayed at comfortable heights and viewing angles with adequate lighting. Consumers should be able to see the entire product, not just stacks of inventory or “sleeves and shoulders.” Retailers in 40 Of The World’s Best Stores provide excellent examples of effective product presentation. WHSmith Guildford (UK) has clear and unobstructed sightlines to improve visibility into the aisles. Leder & Schuh, an Austrian retailer, uses spot lighting to draw consumers to displays and increase footwear sales. Empório Santa Maria, an upscale grocery store in São Paulo, uses distinctive fixtures to showcase products while keeping inventory readily accessible. Selfridges, a UK department store, displays a sweeping panorama of shoes that allows customers to quickly identify products of interest. Where possible, retailers should encourage shoppers to examine and interact with products. When the Once Upon a Toy store at Walt Disney World in Orlando removed miniature collectible figures from their boxes and put them in open display units that provided kids with a bird’s-eye view of their favorite characters, sales skyrocketed from 40 to 900 units per week! Mountain Equipment Co-op in Quebec hangs sleeping bags in front of store stock so shoppers can see and touch the products.

1.4.3.2 PROVIDE EFFECTIVE NAVIGATION AIDS
In the real world, if you do not know where you are going, no road will get you there. In the retail world, the situation is no different. When visiting a store that is unfamiliar or shopped infrequently, consumers need a visual roadmap to help guide them through the assorted goods and services. If consumers don’t see the desired products and can’t end them, then, for all practical purposes, they’re not for sale. A first step towards improving in-store navigation is to make sure destination departments, categories and products are clearly visible. These might include products purchased on a routine basis, merchandise exclusively available from the retailer, new items featured in advertising, and existing products sold on promotion. For items that are purchased less frequently, clear and consistent signage should direct shoppers to appropriate sections of the store. The goal is to make the entire store’s inventory available through visual and physical navigation paths. Signs and maps should use familiar language and visuals to aid comprehension. The size of the graphics and text and their illumination and contrast should be appropriate for the viewing distance and visual acuity of customers.
Navigational signs should have a consistent appearance that stands out from the background so customers can spot them at a distance. Signs should be positioned and angled so they can be easily seen as customers walk through the aisles: the greater the speed of approach, the shorter the message. Merchandise featured in ads and circulars should be tagged.

Section-specific color schemes, materials and ceiling heights can facilitate product department and category identification and discrimination. The store should provide clearly visible circulation routes and access ways, with visibility to other floors in multi-level stores. For example, Hracky Toy Store (Prague) facilitates product visibility and store navigation with a unique raised platform that allows shoppers to look over the entire store by climbing a pedestrian ramp. Landmarks like checkouts, escalators and architectural elements can also create points of reference and assist with way ending. Guest greeters and store employees can answer questions and provide directions. Products themselves are also powerful navigational aids. Merchandise featured on end-of-aisle displays can signal the location of departments and categories. Products or product images can be positioned high on the walls and above shelf mixtures to serve as navigational beacons. If consumers are looking for a set of related products, the items can be grouped together into a billboard to facilitate recognition. Familiar brands — such as Tide detergent, Dockers pants, and the Sony Walkman — serve a special role in consumer way finding. These marketing icons provide easily recognized reference points to aid category identification and discrimination. These concepts are clearly practiced by retailers in 40 Of The World’s Best Stores. The Auchan Val d’Europe hypermarket (France) displays simple color-coded maps that can be understood in the time it takes consumers to ride an escalator to the store entrance. The Decathlon Campus sporting goods store in Lille, France uses color blocking to highlight departments, with same-store sales in stores using this concept up 8% in 2003 and 9% in 2004. Superquinn, a leading Irish food retailer, uses backlit signs with text and graphics to clearly delineate product categories. Carrefour Le Collégien hypermarket (France) draws attention to Health & Beauty Care with a highly visible vertical pylon.

1.4.3.3 SIMPLIFY PRODUCT ORGANIZATION AND PRESENTATION

Stores that offer a large selection of similar products, especially in complex or infrequently purchased categories, create a difficult task for consumers. In order to pick the best alternative, shoppers must closely examine each product, read the product packaging and associated literature, or consult a salesperson to understand what each product does and how it is different from competing brands. Some shoppers, unwilling to invest significant time and effort in their purchase decision, will simply pick whichever item is on promotion. Others will become frustrated and postpone the purchase or visit another store. Retailers should avoid turning love at first sight into death by analysis. When shoppers have limited motivation or ability to process information, the store should provide a small set of visually distinct alternatives where the visual differentiation rejects important differences in features and benefits. Product assortments should be denied by the variety of consumer needs satisfied, not the number of stock-keeping units. Branding and packaging should communicate real product differences, not hide the similarities
between commodity products. Sometimes retailers must offer an extensive product assortment to satisfy the needs of a heterogeneous customer base, convey an image of variety, provide a one-stop shopping experience, or respond to competitive pressures. In such cases, the products should be arranged and presented in ways that simplify the purchase decision. Product organization should reject the mental categories that consumers use to classify products and the steps in the decision process. For example, if consumers select the brand first and then choose a size or color, the products should be grouped by the major brands, and then by size or color within brands. Video-rental stores often arrange the same products in several different ways to meet the needs of different consumer segments and shopping occasions. Selections are grouped by ratings (award winners, top picks by store employees), genre (action, comedy, drama), format (DVD, VHS, game system), and of course, alphabetical order. It is also important that the store layout and product category organization be consistent with consumers’ expectations from their experience at other stores, both within the chain and across competitors. Retailers among 40 Of The World’s Best Stores demonstrate effective product organization and presentation. Lavinia, a specialty wine store in Paris, helps customers sort through its vast selection of wines by grouping products by type and consumer need. At Waitrose Food & Home (UK), breads are neatly stacked on open shelves so shoppers can quickly compare the different loaves on display. Brazilian clothing boutique Daslu organizes salons by designer, or by color in the case of its private-label apparel, so clients can easily coordinate the perfect look. Lairesse Apotheek, an avant-garde pharmacy in Amsterdam, displays conventional and alternative medicines side-by-side in 522 green-fronted translucent drawers so shoppers can choose the treatment that is right for them. Once Upon A Toy is divided into five themed rooms appealing to boys and girls of different ages and interests, with play areas at just the right heights to accommodate the rooms’ targeted guests.

1.4.3.4 MINIMIZE CLUTTER
Clutter is the enemy of retail transparency. It interferes with the consumer’s ability to visually and physically navigate through the store and to end desired goods and services. It distracts people from their shopping goals and reduces the efficiency of in-store communication. The best stores minimize clutter to focus customers on the unique value provided by the merchandise.

A common source of retail clutter is sign pollution. While a few signs can be helpful, more signs are not necessarily better. It’s important to manage the visual load for customers and maximize the signal-to-noise ratio of in-store communications. Retailers should remove signs that provide irrelevant or inconsistent information and consolidate signs with redundant information. For example, if a new product line is introduced, it’s better to have a single large sign highlighting the set of products and summarizing their benefits rather than several small and uninformative “new” signs attached to each individual product. The retailer can improve the efficiency of in-store messaging by establishing standards that manage the number, size and appearance of signs and promotional materials. The actual merchandise can also be a source of clutter. Retailers can reduce category clutter by using simple, functional mixtures; keeping shelves straight and products organized; grouping products together based on similarity; and limiting out-of-season, unpopular, and discontinued
merchandise. Aisles need to be wide enough to accommodate the merchandise and customer traffic, and shelves should be restocked when stores are not busy to limit obstructions. Among 40 Of The World’s Best Stores retailers, Bang & Olufsen (Denmark) uses minimalist store design to allow their high-tech products to stand out as heroes. Playboy Tokyo and Prada New York Epicenter minimize clutter by displaying small sets of products on simple, attractive mixtures with selective signs and merchandising.

1.4.3.5 MAXIMIZE PRODUCT AFFORDANCE
The appearance of each product should clearly convey the benefits it affords. In part, this is the responsibility of the manufacturer, who must design the product and its packaging to effectively communicate the product’s value. However, it is also the job of the retailer to enhance this value through excellent presentation and merchandising. For familiar products, this can be as simple as making sure the brand name and package are clearly visible. For more complex goods, it may involve taking the product out of the box, attaching the instruction manual, providing sales literature, and/or displaying product ratings and reviews. The amount and complexity of the information provided should be consistent with the consumer’s information requirements and his or her motivation and ability to process this information. In the case of a difficult or expensive purchase, shoppers may need more time, space, and privacy to make their selections.

Looking across 40 Of The World’s Best Stores, we see several examples of retailers maximizing product affordance. For perishable goods, Superquinn food stores (UK) uses simple, relevant signage to communicate freshness: “Scones were baked at noon today”; “Avocados [ripe] for today”; and “Picked on Monday.” FNAC, a leading European retailer of cultural and leisure products, provides on-shelf book and music recommendations (“toma nota” or “take notes”) from 300 sales clerks in their Spanish division. Working with personal-care manufacturers like The Gillette Company and Procter & Gamble, Extra Future Store in Germany is testing a variety of in-store electronic systems — hair-care advisory service, baby-care information terminal, and smart-shelf tags in men’s grooming — that provide information enabling shoppers to make better purchase decisions. The Apple Store SoHo displays signs listing the top 10 reasons to switch to an Apple computer. In addition to product information, there are several other ways to communicate a product’s value. Product sampling and trial can engage the customer and clearly demonstrate the product’s benefits and applications. At Decathlon Campus, customers can ride bicycles around a track that doubles as an extra-wide aisle circling the store interior, test shoes and sports equipment on Astroturf, and try out air mattresses on a bed of rocks. Retailers can show products in a realistic context. Bang & Olufsen often features the same product in three different configurations (.floor, pedestal or wall-mounted) to help consumers visualize products in their homes. Retailers can present product solutions through adjacencies and merchandising. These adjacencies do more than cross-sell merchandise. They help consumers recognize and understand the value a product provides.

1.4.3.6 SHOWCASE NEW ITEMS AND NEW IDEAS
New products are the lifeblood of retailing. They lure new shoppers into the store and entice existing customers to return. They are beacons of innovation, rejecting changing
consumer tastes and signaling new trends. And they can be engines for sales growth since stores with effective new product strategies can satisfy both the expressed and latent needs of shoppers. Despite the importance of new products, retailers often lump them in with existing merchandise and rely on manufacturers’ advertising and promotions to stimulate demand. RETAIL SHOPPABILITY

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1.4.3.7 MAKE THE SHOPPING EXPERIENCE CONVENIENT

Consumers often have competing demands and time constraints that limit how long they can spend shopping. They enter a store with specific products in mind and this narrows the focus of their attention. If the retailer makes it easy to locate and choose these destination items, then shoppers will have more time to browse for complementary products, new merchandise, and impulse purchase items. This can boost the size and profitability of the shopping basket, as well as enhance customer satisfaction and loyalty.
One way to increase shopping convenience is to streamline physical navigation: the path and distance a customer must travel to purchase desired products. Ideally, the store is sited at a convenient location with ample parking near the store’s entrance. Doorways and aisles are wide enough to accommodate customers and their children, coats, packages, shopping carts, baby strollers and wheel chairs. Destination categories and featured items are easily accessible. Complementary products are co-located or bundled into solutions to address shoppers’ needs. Ladders and poles are available to facilitate product access in self-service environments. The best retailers also deliver convenience by selling an attractive selection of quality merchandise at a fair price. Consumers don’t need to shop around because they know that the store will have the desired products in stock, the merchandise will perform well, and the prices will be reasonable for the value delivered. They are not forced to submit rebate forms or buy unwanted extras in order to receive a discount. Some retailers take additional steps to encourage customers to buy now: offering price-matching guarantees to minimize value concerns; displaying signage that compares the store’s prices on selected items to competitors’ prices so shoppers trust they are getting good value for their money without having to travel to other stores; generous return privileges and product warranties to reduce performance concerns; and product trade-in programs or upgrade paths to minimize obsolescence concerns. For impulse-purchase items, a small discount (of unknown value) is often all that is needed to give shoppers permission to buy.

It is also critical to eliminate unproductive delays and waiting during the shopping process. Common bottlenecks include the customer service desk (returns, gift cards, registries, credit), access ways (elevators, escalators, stairs), fitting rooms, and the cash wrap. These friction points can cause consumer impatience and complaining, and increase the psychological cost of shopping. Retailers can improve shopping efficiency by increasing customer service levels; staffing with multi-lingual personnel; improving communication between staff members; maintaining accurate price tags and promotional signs; providing customers with hand-held scanners, checkout terminals, and other self-service technologies; using high-bandwidth internet connections to speed credit-card authorization; providing legible register displays; accepting multiple forms of payment; and saving customer preferences and billing information to speed repeat orders.

This convenience can extend to fulfillment: bagging and delivering merchandise to the customer’s car; holding merchandise for later pickup; and shipping out-of-stock or heavy items to the customer’s home or office. Retailers in 40 Of The World’s Best Stores deliver convenience in many ways. Several retailers make creative use of product adjacencies to increase shopping efficiency. Auchan Val d’Europe provides convenience to families by merchandising products for mothers and their babies in a Baby World section combining products traditionally stocked in separate departments. Lavinia offers convenience to shoppers on a budget by clearly grouping a selection of 45 quality wines for less than €10 a bottle. Other retailers have developed innovations to speed checkout. Portuguese food retailer Continente provides ample checkout lanes to reduce queue length, and encourages customers to shop anywhere at anytime by using the Pocket Continente service on their Personal Data Assistants. Superquinn introduced a reusable Greenbag shopping tote that has reduced checkout time by 15%. Kroger College
Station (Texas) uses biometric technology to speed up check authorization and checkout, and Extra Future Store in Rheinberg, Germany, has installed IBM’s Vegivision technology, which can accurately recognize, weigh and price produce in a self-service environment.

1.4.3.8 MAKE THE SHOPPING EXPERIENCE ENJOYABLE
Walt Disney once said, “People spend money when and where they feel good.” Research has confirmed this to be true. When customers enjoy the shopping experience, they will spend more time browsing in the store and are more likely to make discretionary purchases. On the other side, stress and negativity narrow the consumer’s focus. Shopping becomes a chore, and people buy just what they need and leave. How can retailers make people feel good? The first priority is to engage customers in the experience by stimulating shopping-related needs and goals. The store should present an attractive selection of merchandise, including new and fashionable items to keep the experience fresh and interesting. The environment should stimulate consumers’ senses with appealing sights, sounds, smells, tastes, and touch. These stimuli can evoke powerful emotions by connecting with consumers’ past experiences and memories. The store can heighten consumer involvement by creating a sense of adventure and discovery. For some retail formats, this may take the form of bargain hunting. In others, it can involve special displays, product demonstrations, events and/or entertainment. In any case, these new and surprising experiences must be consistent with the retailer’s brand image. Retailers among 40 Of The World’s Best Stores feature outstanding products in starring roles. Prada New York Epicenter is a retail laboratory that showcases the newest and most unusual fashion ideas that made designer Miuccia Prada famous. Central Market lures shoppers through its serpentine perimeter of fabulous fresh foods by creating an irresistible feast for the senses. In Las Vegas, M&M’s World takes its love of candy-coated chocolate to extremes in a colorful store selling everything from every variety of M&M’s in the world to every possible item that can carry the brand’s logo. Once Upon A Toy offers exclusive toys with an unmistakable Disney theme to steal shoppers’ hearts and wallets during their time at Walt Disney World. Instead of conducting the same scheduled promotions each year, Selfridges employs always-unique and sometimes-controversial blockbuster promotions that keep shoppers coming back to see what cutting-edge fashion and fun this bold retailer has in-store for them.

Retailers also need to consider the social aspects of the shopping experience. Employees who are friendly and attractive, who can identify with customers, and who are enthusiastic about their job and the products they sell, can significantly enhance shopping enjoyment. Retailers among 40 Of The World’s Best Stores feature outstanding employees. Daslu’s upper-class salesgirls and working-class assistants collaborate to pamper the store’s exclusive clientele. At the world’s only supermarket for children, Pão de Açúcar Kids, employees work with local teachers to educate visiting students about responsible consumption. Lavinia’s sales staff of sommeliers share their love and knowledge of wine with appreciative shoppers. Las Vegas Harley-Davidson personnel share a rebellious lifestyle with their customers through HOG, the Harley Owners Group. The multi-ethnic staff at food-retailer Fiesta in Texas is ideally suited to serve the store’s diverse customer base. Special events are another tool for managing a store’s social atmosphere. They can attract groups of customers with common interests and lifestyles,
creating social opportunities for patrons and economic opportunities for merchants. Retailers among 40 Of The World’s Best Stores conduct a variety of outstanding events. Roots One Hundred Bloor, a Canadian outfitter, throws star-studded parties at its in-store bar to attract adoring fans. FNAC hosts more than 15,000 artistic and literary functions each year to build a community of like-minded cultural enthusiasts. Playboy Tokyo entices young female shoppers and their companions to its branded boutique with popular Playmate appearances. In Las Vegas, Fashion Show stages 1,200 fashion shows annually to showcase the latest apparel sold at mall retail tenants. The Forum Shops at Caesars attracts visitors with mega-entertainment such as boxing matches in the adjacent casino or spectacular animatronics in the retail space.

A well-designed store should address consumers’ needs throughout the shopping journey. If people will be visiting for an extended period of time, the retailer should provide refreshments, clean restrooms, and a place to sit and relax. For example, Auchan meets the needs of new mothers by providing changing facilities with rocking chairs and free diapers. When shoppers’ arms are full with merchandise, the store should have shopping carts, baskets, and counter space available to set things down. Play areas can help parents entertain children and gain 10 a few extra minutes of shopping time. Merchants should make a special effort to enhance shopping enjoyment when selling products that offer positive benefits such as sensory stimulation, intellectual stimulation, self-enhancement, and social approval. If consumers like a store, they will be inclined to like its products. That is why Canada’s Couche-Tard convenience stores encourage loitering in comfortably furnished lounge areas decorated with local artwork, equipped with high-speed internet access, and stocked with reading materials.

1.4.3.9 SPEAK WITH AUTHORITY

The best retail stores send a clear, confident message to the customer that his or her needs will be satisfied. This message is reinforced by all aspects of the store environment: the store’s appearance and ambiance, the salespeople, the product selection, prices, merchandising and advertising. Together, these elements define the retailer’s brand soul and create equity in the minds of customers. One way to speak with authority is to demonstrate expertise in subject areas related to the products being sold. Retailers can hire personnel who have product-related skills, knowledge and experience. Employees at companies profiled in 40 Of The World’s Best Stores demonstrate world-class expertise. Decathlon Campus conveys its sporting goods authority by showing how professional athletes participate in the development of the store’s private-label products. Central Market demonstrates its passion for fine food by hiring only culinary enthusiasts eager to share their skills with shoppers who love to eat. Las Vegas Harley-Davidson demonstrates the quality of its service department by providing customers with viewing platforms so they can watch their motorcycles being serviced. The Apple Store Soho aunts its technical expertise at a Genius Bar staffed by the store’s best trouble-shooters, and equipped with red phones linked to software engineers at company headquarters.

Another approach is to include elements in the shopping environment that symbolize the benefits being provided. BIG Hypermarkets lives up to its name with larger-than-life display props such as oversized pencils that have made this retailer the destination of choice for back-to-school supplies in Brazil. Mountain Equipment Co-op features an in-store climbing wall
that allows both daring shoppers and accomplished employees to demonstrate their vertical skills. Roots One Hundred Bloor displays its “blueprint” on store walls and .mixtures to communicate the brand values of tradition, sportsmanship and casual athleticism. FNAC places a seal of approval on each product certified by its Consumer Testing Lab to reassure shoppers they are purchasing a high-quality item. Lairesse Apotheek has a lifelike gingko tree, known for its medicinal properties, growing through the .oor, and semi-transparent partitions allow customers to see their prescriptions being .filled.

A third way to establish authority is through the product selection. Customers should be impressed with the quality of the products, their exclusivity and authenticity. The assortment of goods should convey product variety, not redundancy. And the selection should be relevant, addressing the unique needs of the customer segment. Daslu is the undisputed home of good taste in Brazil because it brings the world’s .nest fashions to an exclusive class of shoppers hungry for merchandise from the .nest international designers. Empório Santa Maria offers an unparalleled selection of the world’s most exclusive and upscale foods to satisfy the discerning palettes of affluent São Paulo residents. Fiesta builds loyalty among its international clientele by selling authentic products from shoppers’ various homelands. Prada New York Epicenter showcases striking handbags and accessories onboard its cylindrical glass elevator so shoppers on the move are never far from the merchandise.

1.4.3.10 MAINTAIN FLEXIBILITY
Change for the sake of change can cause consumer confusion and frustration. However, the best stores are continually testing new concepts and refining the in-store environment to address trends in consumer preference, technology, and fashion. These changes go beyond the seasonal variations in product displays and signage that occur in most retail stores (e.g., replacing barbeque grills with Christmas trees in the fall). The most .flexible retailers have the ability to manipulate store layouts, .mixtures, merchandising, lighting and other elements of the store’s appearance and its product offerings to keep the experience fresh, interesting and relevant. RETAIL SHOOPABILITY 11 Technology is an important enabler of retail .flexibility. By creating digital representations of physical products and promotional materials, content can be manipulated in real time to respond to changing market conditions. Electronic shelf labels can instantly update prices to reject temporary price discounts, current levels of product inventory, and new competitive conditions. Digital signs can vary message content by the time of day, day of the week, and geography. Handheld scanning devices can speed up the checkout process on busy shopping days. Kiosks and electronic ordering systems allow shoppers to check inventory at other stores and order products online when these items are out of stock or otherwise not available. In each case, digital product representations augment rather than replace physical products that are the focus of the retail shopping experience. Retailers in 40 Of The World’s Best Stores are incredibly .xible. Leder & Schuh’s Humanic shoe stores combine constantly changing merchandise with constantly changing merchandising since its European locations have virtually no permanent .mixtures. Every
eight weeks, the latest fashions are displayed in an entirely new retail theater created by set designers using mobile mixtures, lighting and props. Washington Mutual cross-trains its personnel so that employees are always able to perform whatever function a customer needs whenever they need it. Extra Future Store employs the world’s leading technology to create a constantly changing store to satisfy constantly changing shoppers.
EVOLUTION OF RETAIL ORGANIZATION

Structure
2.1 Need of Having a Professional Retail Organization

2.2 Traditional Rural Retail Fairs

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   2.4.12 Conclusion

2.1 NEED OF HAVING A PROFESSIONAL RETAIL ORGANIZATION

As we understand, retailing involves all activities directly related to the sale of goods and services to the ultimate consumer for personal, non-business use. Simple retailing is maturing into a more microscopic and systematized process.

The era of rural retail industry could be categorized into two formats: weekly markets and village fairs. Primarily weekly formats catered to the daily necessities of villagers. Village fairs were larger in size with a wide variety of goods sold from food, clothing, cosmetics and small consumer durables. The traditional era saw the emergence of the neighborhood 'Kirana' store to cater to convenience of the Indian consumers. The era of government support saw indigenous franchise model of store chains run by Khadi & Village Industries Commission. The KVIC has a countrywide chain of 7000 plus stores in India. This period also witnessed the emergence of shopping centers with car parking facility. The Modern era has a host of small and large formats with exclusive outlets
showcasing a complete range of products. The department stores and shopping malls targeting to provide a complete destination experience for all segments of the society. The hyper and super markets are consistently trying to provide the customer with the 3 V's. (Value, Variety and Volume)

Over the last three years, this sector has witnessed an exorbitant growth due to the establishment of numerous international quality formats to suit the Indian purchase behavior, the improvement in retail processes, the development of retail specific properties and the emergence of both, domestic and international organizations.

Retailing sector is the second largest employer in the country with almost over 12 million retail outlets in India and only 4% of them being larger than 500 square feet in size. Although retailing in India is fairly fragmented, organized retailing is gaining momentum rapidly growing at almost 25-30% per annum and is forecasted to touch a figure of Rs 1,50,000 crore by 2010. The economy is projected to grow at 8.1% in 2005-2006 having grown at a steady pace of around 6% over the last 10 years.

Organized retailers are the contemporary formats by which shoppers have the edge of a world class shopping experience. Fine examples of these formats are Pantaloon, Shoppers Stop and Trent. Organized retail may broadly be classified into the following formats-

**Malls** The largest form of organized retailing today. Malls are located mainly in metro cities, in proximity to urban outskirts, this format ranges from approximately 60,000 sq ft to 7,00,000 sq ft and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof.

**Hypermarkets** They are typically large, starting from 40,000sq. ft plus are usually located outside the city limits. This format comprises of a multiple division layout, and usually has an "industrial- look" interior. Hypermarkets generally provide daily necessities and grocery like items. Pricing is competitive and they also offer volume discounts.

**MBO's** Multi Brand outlets, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros.

**Super Markets** Large self service outlets, catering to varied shopper needs are termed as Super markets. These are located in or near residential high streets. These stores today contribute to 30% of all food & grocery organized retail sales. Super Markets can further be classified in to mini supermarkets typically 1,000 sq ft to 2,000 sq ft and large supermarkets ranging from a size of 3,500 sq ft to 5,000 sq ft. having a strong focus on food & grocery and personal sales.

**Discount Stores** As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non perishable goods.
Convenience Stores: These are relatively small stores 400-2,000 sq. ft located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

Departmental Store: Large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. Further classified into localized departments such as clothing, toys, home, groceries, etc.

Exclusive Store: Ranging from a size of 500 sq ft to 5,000 sq ft & above, this format is owned/managed by the Company or through its franchise. These can offer single brand as well as multiple bands.

Specialty Store: These formats focus on a specific product category, Medium sized layout in strategic location. Specialty stores provide a large variety base for the consumers to choose from.

Despite the presence of the basic ingredients required for growth of the retail industry in India, it still faces substantial hurdles that will retard and inhibit its growth in the future. One of the key impediments is the lack of FDI. This has largely resulted in limited capital investments in supply chain infrastructure, which is a key for development and growth of retailing and has also constrained access to world-class retail practices. Lack of proper infrastructure and relatively high cost of real estate are the other impediments to the growth of retailing. While the industry and the government are trying to remove many of these hurdles, some of the roadblocks will remain and will continue to affect the smooth growth of this industry.

2.2 TRADITIONAL RURAL RETAIL FAIRS

Traditional rural retail fairs are a very big attraction to foreign tourists. We have the Pushkar fair in Rajasthan which brings in a lot of revenue both from domestic buyers and buyers from abroad. In the Pushkar fair live stock like camels, horses, cows, goats, and sheep are sold as well as bought. A range of exotic items are also available. The traditional items here are handmade jewelry and other colorful memorabilia of Rajasthan.

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
- Hand painted chairs in chowki
- Wooden corner stand
- Wooden Hand painted table
• Embossed wooden chairs
• Brown wooden stool
• Camel bone Jewelry
• Metal jewelry
• Snake charmer puppets
• Handmade candles

The Suraj Kund mela is also a huge galore of Indian traditional items. This fair is held at Haryana which is 8 kilometers from South Delhi. The fair has been held for the last 20 years. The fair deals in items categorized as

• Indian arts
• Handicrafts
• Heritage
• Culture and tradition

Traditional rural retail fairs have a typical rural set up like:

• Huts of mud
• Thatched platforms
• lamps of wood
• String cots
• Plainness ground

The small thatched stores are a vibrant display of handcraft items. The focus every year is on a particular State for instance, in 2006 it was Maharashtra. The other group of items representing the Indian Subcontinent available there are:

• Classical
• Tribal art
• Folk art

As such Traditional Rural Retail fairs involve credit worthy artisans and weavers of over 350 in number and they are selected from across the country. Along with the county's rich cultural heritage being showcased, the fair is open to foreign traditional goods as well. The more rejuvenating side of these fairs would be listed as under:

• Indian Sweets Snacks
• Indian folk music
• Classical dance
• Bengal tiger show
• Elephant rides
• Tiger show and rides
• Giraffe tricks
• Balloon and Clay items
• Painting
Therefore, **traditional rural retail fairs** are a never ending occupation and the key to it lies in the originality and attractiveness of the items.

2.3 TRADITIONAL FAMILY RUN CONVENIENCE STORES

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. The **retail 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.

The traditional family run convenience stores can take pride in the fact that the Kirana is the most common outlet forms for the consumers. The tough competition for convenience stores are coming from organized retail stores dealing in food items, like:

- Apna Bazaar
- Canteen stores
- Food World
- Subhiksha
- Food Bazaar

**Convenience Stores** are open for long hours and is one of the formats of the Indian retail stores that cater to basic needs of the consumer. A good example of such would be Convenio. These stores are found in both residential as well as commercial markets. The food products of traditional family run convenience stores are comprised of branded as well as non-branded items. The benefits of family run convenience stores is that they give importance to:

- Personal touch
- Facilities of credit
- Quick home delivery

Non-food based stock comprises of multiple and varieties of local brands. The future of such stores as they face competition from organized sector would depend on the following particulars:

- Place and capacity
- Diligent area coverage
- Disciplined work schedule
- Managing turnover
- Revenue from assets
- Customer service and satisfaction
The traditional family run convenience stores serves the purpose of the housewives who definitely want to avoid traveling long distances to purchase daily needs. The convenience factor in terms of items, among people in general can be highlighted as below:

- Groceries
- Fruits
- Drug Store
- Necessary stationery

As such traditional family run convenience stores are here to stay and cannot be oversized by the organized retail sector besides, it represents the variety of India.

2.4 GLOBALIZATION AND RETAILING

2.4.1 INTRODUCTION

Remember when global retailing was hot? Overseas expansion was going to be the panacea for an industry gripped by excess capacity, slow growth, regulatory restrictions, and a fickle price-conscious consumer. Emerging markets would grow at extraordinary rates, pushing vast numbers of people over the threshold of middle class affluence. These markets would be the prime source of growth for global retailers, able to exploit their leading edge technology, supply chain management, and merchandising skills. Of course many retailers did globalize, and some succeeded. Yet many more retailers, especially US-based retailers, struggled and failed to find the holy grail of globalization. Indeed the retailing industry is littered with the charred remains of investments that drained cash from the bottom line. Retail behemoths were humbled by poorer, technically unsophisticated local companies that simply knew their customers better. They were sideswiped by financial crises in such disparate locations as Argentina, Indonesia, Russia, and Mexico. So why talk about global retailing now? The answer is that, despite the many failures, there are also many successes. The factors that drove enthusiasm in the past have not disappeared. Leading retailers face growth constraints in their home markets and often have much to offer in foreign markets. Emerging markets, especially China, still represent the greatest hope for increased spending power. Indeed China’s entry into the World Trade Organization offers retailers an opportunity to improve the efficiency of global sourcing and to tap into a vast new consumer market. Of course risks remain. Financial markets can still wreak havoc with an emerging economy, local customs can still bewilder the most knowledgeable investor, and local governments can still place unreasonable obstacles to success. So let us consider the issue of retail globalization and determine if any useful lessons can be gleaned from the experiences of the past.

2.4.2 WHY GO GLOBAL?

Retailers go global for a number of reasons. European retailers are more prone to globalization than American retailers because they often face restrictions on development
in their home markets. Some retailers invest globally in order to latch on to fast growing consumer markets, especially when their home markets are stagnant. Germany and Japan come to mind. Retailers expand globally in order to leverage their existing assets; global purchasing relationships, a global supply chain, a unique product, a unique format, or a well known brand. Finally some retailers globalize because foreign markets offer them low hanging fruit. That is, foreign retailers can bring leading edge practices to relatively unsophisticated markets. In so doing, they blow away the competition (or at least that is their hope).

2.4.3 WHY DOES GLOBALIZATION OFTEN FAIL?
Despite the good reasons to globalize, retailers have often found the process to be far more challenging than expected. Indeed it seems that retail globalization is more art than science. Or at least the scientific rules have not been revealed despite massive experimentation. Consider the things that can go wrong:

Failure to understand the local consumer
When Wal-Mart opened stores in Indonesia in the late 1990s, it built American-style stores with bright lights, wide aisles, neatly stacked goods, and clear signage. Its competitors had dark lighting, messy merchandise, dirty wooden floors, and uncertain prices. Indonesians flocked to the competition. To consumers just a few years removed from street markets, the Wal-Mart stores gave the appearance of being upscale – even though they clearly were not. The point is that, despite the best of intentions, Wal-Mart misread the local consumer. Sadly, there is no clear rule for avoiding this error. Sometimes in-depth research on the local market will offer valuable insights, but sometimes it will miss the mark and will deter retailers from real opportunities. For example, Starbucks was told to avoid Japan. It was told that Japanese consumers were tea drinkers and would not take to coffee, that they would never carry a Styrofoam cup down the street or place one on their desks. Yet Starbucks was a big hit in Japan. In the end, all global retail investments entail making a bet and taking a risk. Perhaps the best rule of thumb is that a retailer should have the financial underpinning necessary to risk failure.

2.4.4 UNDERESTIMATING THE LOCAL COMPETITION
Global retailers often enter new markets thinking that they will roll over the local competition, what with their backward information systems, poor merchandising, and 1970s style store design. Yet often the opposite happens. Often, locals demonstrate the true value of market knowledge, a local supply chain, and brand equity. Examples abound of local retailers who gave global retailers a hard time. Among them are Uniqlo in Japan, Matahari in Indonesia, E-Mart in Korea, and Lianhua in China.

2.4.5 FAILURE TO UNDERSTAND THE LOCAL MARKET CONDITIONS
Sometimes global retailers enter new markets with the wrong partner. Often that partner is a leading business in the local market, but has interests that are not necessarily aligned with its partner. Or, sometimes the corporate cultures simply clash – often the result of differences in national culture and language. Finally, partnerships often fail because the global investor is arrogant and does not listen to its local partner. No examples given here! Global retailers often globalize in order to bring unique competitive advantages to a new market only to find that those advantages cannot be implemented. For example,
Wal-Mart found difficulties in offering discount prices in highly regulated Germany. Many retailers in emerging markets cannot implement sophisticated supply chain management when local suppliers do not even use bar codes. Moreover, efficient supply chain management is difficult when the local distribution system is built on inefficiency as has been the case in Japan.

2.4.6 HAS ANYONE SUCCEEDED?
Yes, of course. If not, there would be no point in writing this essay. Indeed, success in globalizing is not only attainable; it could well be a necessary condition for overall success for retailers in the future.

FOOD RETAILERS
The most successful retail globalizers are food retailers. Companies such as Carrefour, Metro, Tesco, Wal-Mart, and Ahold have led the way in creating global enterprises that operate stores in numerous markets. Yet food retailing mostly involves localized merchandise and local purchasing. Although these companies have increasingly global relationships with major packaged goods suppliers, local subsidiaries usually purchase over 80% of their merchandise from local suppliers.

2.4.7 WHY IS IT WORTHWHILE FOR THESE COMPANIES TO BE GLOBAL?
The answer is that they offer world-class business processes, technologies, and organizations that cannot be matched by local retailers. These might be merchandising in the case of Carrefour or supply chain management in the case of Wal-Mart. In addition, they have the financial resources to create scalar efficiencies. Finally, for the roughly 20% of merchandise that is purchased globally, they have a clear competitive advantage over local retailers.

Home Product Retailers
Yet the world’s leading non-food retailers have more compelling reasons to go global – and some have done so successfully. For example, Ikea offers a unique product assortment combined with a compelling shopping experience, all at value prices. This formula has been successfully replicated in many countries. Given the company’s strength in product design and global sourcing, it is nearly impossible for local retailers to compete with Ikea on its own terms. Another example is the B&Q division of Kingfisher, which has been successfully transplanted to several foreign markets including China. This home improvement retailer has used its financial resources to exploit the burgeoning home ownership in China. It offers Chinese consumers a shopping experience Deloitte Research – Assessing Retail Globalization 3 that would be difficult for any local retailer to replicate as it involves complex supply chain management, global sourcing of leading brands, and leading edge managerial skills. Going forward, leading home product retailers in the US and Europe will seek new opportunities outside their home markets. For these retailers, two possibilities will exist. First, acquisitions of similar businesses in other developed markets will enable these companies to leverage their global sourcing capabilities. Second, organic expansion in emerging markets will enable retailers to tap into rapid consumer spending growth and offer a service that is superior to that of local retailers.
Fashion Retailers

In the realm of fashion, there have been some notable successes in taking retail concepts to new markets. These include Sweden’s H&M, Spain’s Zara, and US retailer Gap. The scope for apparel specialty chains to expand globally is vast for several reasons. First, their footprint is relatively small, so finding appropriate space is less challenging than is the case for food retailers. Second, these retailers are generally vertically integrated and, therefore, can leverage the existing supply chain in new markets. Third, the most successful apparel retailers usually have universal appeal. For example, H&M offers a strong value proposition which appeals to financially constrained consumers in all markets. Zara offers fast fashion which appeals to fashion conscious consumers in all markets.

2.4.8 EMERGING MARKET RETAILERS

Interestingly, some of the most notable success stories involving multi-country operations of retailers involve emerging market retailers investing in other emerging markets. Perhaps companies that are able to succeed in such challenging places, often competing against world-class foreigners, are well equipped to navigate the mine-field of other emerging markets. Among the success stories are Turkey’s Ramenka hypermarket operation in Russia, Malaysian apparel retailer Metrojaya’s specialty concepts in Southeast Asia, Hong Kong apparel retailer Giordano’s stores in China, and Brazilian health and beauty retailer O’Boticario’s stores in South America. Indeed there is every reason to believe that much of the future growth of modern retailing in emerging markets will be attributable to emerging market retailers.

Is globalization just about global store operations? No. It is also about globalization of the back office. Indeed many of today’s leading retailers are rapidly becoming more global enterprises – at least in the back office aspects of their businesses such as purchasing and supply chain management. Global sourcing is emerging as an imperative for value-driven retailers facing fierce price competition in their home markets. The search for low priced merchandise has taken retailers to the far reaches of the globe. Many are establishing purchasing offices in China. Wal-Mart, for example, has its global purchasing center in Shenzhen in Southern China. Other leading retailers are doing the same. Direct sourcing from low cost emerging markets has enabled leading food and mass retailers to offer high quality products at unusually low prices. The result is that these retailing behemoths are becoming competitive against specialty chains and department stores. For the latter, emerging market sourcing is becoming a vital aspect of maintaining price competitiveness. The promise of global sourcing will only increase as the world’s trading regime becomes more liberalized. Specifically, quotas on imported apparel and textile products will be eliminated by December 2005 under the WTO agreement. The potential impact is vast, largely because of the emergence of China as a key sourcing location. Due to its low labor costs, it’s almost unlimited supply of cheap labor, its strong infrastructure for producing and distributing goods, and its talented management pool, China is the most important sourcing location for most companies in the apparel industry. When quotas are lifted much production will likely shift from other countries (Bangladesh, Philippines, etc) to China. The result will be dramatically lower costs and a huge increase in Chinese exports. This has already happened in those merchandise categories where quotas have been lifted. For global retailers, this presents an opportunity to offer consumers a better value proposition and obtain higher margins to
boot. On the other hand, under the terms of China’s entry into the WTO, the US government retains unusually broad discretion to block Chinese imports should they expand rapidly. Indeed, the US has already exercised that discretion in several product categories. This bodes poorly for further trade liberalization. On the other hand, the election season in the US is beginning now. When the quotas are finally ended, the election will be over and the pressure to protect domestic workers will be lessened. Nevertheless, retailers and their suppliers will probably want to maintain diversity of sourcing in order to avoid being sideswiped by protectionist actions.

Where are the opportunities for global retailers?

**China**

When it comes to China, global sourcing is only the beginning. For many retailers, the logical next step is to leverage the purchasing relations in China and elsewhere to tap into local emerging markets. Until recently, this was problematic. Prior to China’s entry into the World Trade Organization (WTO), China required that most manufactures purchased by global companies be exported rather than sold in the local market. Thus global retailers operating stores in China did not have access to the best products and brands for those stores. Under the terms of China’s entry into the WTO, this rule will end and retailers will have access to the best and cheapest products for their local stores. Moreover, the larger attraction of China is its enormous and fast growing domestic market. With the fastest growing large economy in the world, the number of middle class Chinese consumers continues to increase rapidly. In addition, with import tariffs being reduced, consumer purchasing power is expanding. For example, the tariff on imported automobiles is being cut by 75% over a six year period. The result is a huge increase in automobile purchases. This is not only significant for automotive producers. It also has vast implications for retailers as automotive ownership will dramatically change lifestyles and shopping behavior. The rise of China’s middle class is demonstrated by the shift in foreign retail investment. In the late 1990s, most of the foreign retailers opening stores in China sold basic products (food, packaged goods). Today, much new investment involves non-food retailers selling discretionary products (fashion, cosmetics) or products aimed at the rising number of home owners (DIY, furniture). Food and mass retail investment is now focused instead on secondary markets that have not yet experienced the affluence of a Shanghai or Shenzhen. Looking ahead, China offers the prospect of even greater riches for retailers (and significant risks as well). There is a strong probability that China will revalue its currency within in the next few years. The result will be that imports in China will become cheaper and, as a consequence, Chinese consumers will be effectively richer. Moreover, as China continues to expand exports, especially high technology exports, its economy will grow rapidly. There is good reason to believe that China’s per capita income will double in the next ten years. In addition, Chinese manufacturing companies will emerge as global powerhouses. Today, many Chinese companies are roughly at the same stage of global development as Japanese companies 40 years ago or Korean companies 20 years ago. Unlike those situations, however, the Chinese domestic market is not closed to foreigners. Indeed in 2003 Chinese imports grew faster than that of any other large economy – roughly 40%. Thus, foreign retailers can take advantage of a prolonged period of economic development in the context of further integration into the global economy.

**Russia**
Yet China is not alone among emerging markets in attracting retail attention. Russia has lately become the darling of foreign investors, including retail companies. This is due to several factors. First, a relatively benign regulatory regime implies that foreigners can enter the Russian market with ease (although arbitrary and corrupt government officials can stymie the best of plans). In addition, there are few strong competitors in Russia. Thus foreigners with world-class processes can write the rules of the game and blow away the competition. Finally, Russia has vast hidden wealth. A large underground cash-based economy has created notable opportunities for foreigners. When Ikea opened in Moscow in the late 1990s, its biggest problem was getting enough merchandise into the store to satisfy huge customer demand. Russia was on the verge of becoming a popular destination for foreign retailers in 1998 when, due to the contagion from the Asian economic crisis, Russia simultaneously devalued its currency and defaulted on its foreign debts. Immediately, Russian consumers became poorer and Russian investment became riskier. Foreign retailers mostly balked (Ikea was a notable exception). Today, however, Russia is back. With its government debt evaluated at investment grade, and with relatively high commodity prices boosting its exports and foreign reserves, Russia appears less risky. Moreover, its economy is growing rapidly. Hence, foreign retailers are rushing in. Among recent investors are France’s Auchan and Germany’s Metro. Carrefour and Wal-Mart are known to be interested. Are there risks in Russia? Yes, this remains a place where the rule of law is clearly uncertain and where the success of the economy is highly dependent on the vicissitudes of global commodity prices. Interestingly, the elevated level of commodity prices in 2003 has largely been due to the strong demand for commodities in fast growing China. Thus there is a symbiosis to the economic strength of the successors of Communism.

India

Perhaps the last great frontier for global retailers and their suppliers is India. Although this nation of one billion people has a per capita income only half that of China, it is conservatively estimated that there are roughly 150 million middle class Indians. That is the number of people who live beyond hand to mouth and have some discretionary spending ability. Moreover, many are educated and speak English – thus offering some cultural compatibility for global retailers. Following an economic crisis over a decade ago, India dropped its post-war habit of excessively regulating the economy. It adopted market oriented reforms, improved its fiscal management, and focused on exports. The result has been stronger economic growth. Moreover, India appears to be taking off, having become the location of choice for many outsourced processes that involve knowledge of English and/or skills with information technology. In the next few years, India is likely to experience historically strong growth, in the process vastly increasing the number of middle class consumers. For example, it is expected that the number of mobile phones in India will increase from today’s 20 million to 100 million by the end of the decade. For retailers, these facts present a great opportunity. Yet India’s retailing sector is woefully underdeveloped. Moreover, its distribution infrastructure is not suited to large scale retailing. Still, a handful of large global retailers are starting to take an interest. Germany’s Metro and Hong Kong’s Dairy Farm are already active in this market. Others will soon follow.

Other emerging markets
Although China, Russia, and India are getting most of the attention these days, many other emerging markets offer attractive opportunities for the world’s leading retailers. Brazil, for example, has recovered from its economic slowdown and is witnessing a resurgence of consumer spending. The country is experiencing a new round of retail modernization. In the realm of food, major retailers are opening stores aimed at lower income households, having saturated the major cities with hypermarkets that appeal to middle and upper income homes. In non-food, leading local retailers are rolling out stores that replicate some of the advantages of the leading specialty concepts in the US and Europe. The next step will be investment into Brazil by those specialty chains. Some emerging nations such as Poland and Thailand, having experienced massive investment by foreign food retailers, are starting to consider restrictions on large store development in order to protect locals. Yet such regulations will not likely affect non-food foreign retail investment. Therefore, expect to see further investment by specialty chains into such places as Central Europe, Southeast Asia, and the Middle East (mainly Turkey and the rich Persian Gulf states).

New Europe The advent of the euro-zone has created the potential for retailers to operate integrated organizations across an entire continent, much like in the US. Still, differences in language, regulations, technical standards, and labor regulations mean that US-style integration is probably not attainable. Still, greater efficiency than now exists is a reasonable goal, one that would lead to greater profitability. Therefore, it is likely that there will be further cross-border merger and acquisition activity among big box retailers in Europe, as well as pan-European expansion by smaller format concepts. We have already seen much such investment in the realm of food and general merchandise, as well as in specialty apparel. More will follow. To some extent, such investment will be along the lines described by US Defense Secretary Donald Rumsfeld. He noted that there is an “old Europe” and a “new Europe.” Of course he was discussing foreign policy attitudes. Yet the same bifurcation applies to retailing. Old Europe (France and Germany) faces highly restrictive labor and retail regulations, slow economic growth, and deflation. New Europe (UK, Ireland, Spain, Portugal, Netherlands, and Poland) has more dynamic economies, fewer labor regulations (and thus lower unemployment), fewer restrictions on retail development, and often faster economic growth. It is into the latter set of countries that a disproportionate share of foreign retail investment will flow. A good deal of that investment will come from old Europe. Some will eventually come from the US.

New Japan
Japan is a paradox for global retailers. On the one hand, its economy has been stagnant for over a decade, its prices have been falling, and its retailing industry is littered with technically insolvent giants that are kept afloat by banks. On the other hand, Japan is ready for a revolution in retailing. Consumers with plenty of money have become value-conscious. The demonstration effect of visiting value retailers in foreign lands has helped, as has the effect of visiting Japan's new value stores. Thus, consumers are increasingly amenable to change, and are clearly willing to spend when they find a concept that satisfies their needs. The result is that big foreign retailers are starting to invest in Japan. Their hope is that they can bring efficient supply chain management, better merchandising, and the deep pockets necessary to invest in new systems that will enable them to challenge the status quo. Wal-Mart, Carrefour, Costco, and Metro have
already taken the plunge while others are expected to do so. It remains to be seen whether they can succeed. After all, Japan remains laden with restrictive regulations, a Byzantine distribution system, and a challenging property market. Moreover, Japan has failed to resolve its banking crisis. This means that many failed retail assets which, by any measure, should be available for foreign takeover, are being kept afloat and off the market by their insolvent bankers. Yet investment in Japan is surely worth trying. Japan has a vast number of long-suffering consumers ready for change. Japan’s property prices have plummeted and its retail assets are relatively cheap. If the country finally resolves the banking crisis, many existing retail assets will become available for foreigners.

Will European retailers invest more in the US?

For European retailers, the home market is mostly saturated, the regulatory environment is onerous, and the economy is growing more slowly than ought to be the case. Thus growth must increasingly be generated elsewhere. Notably, European retailers have not invested much in the world’s largest retail market. Instead, their foreign adventures have focused on emerging markets. This is partly the result of having experienced many failed attempts to enter the US in the 1980s and 1990s. Yet the US is affluent, not nearly as saturated as Europe, and faces far fewer regulatory constraints. Is now a good time to reconsider the US?

The answer is yes. Consider why:

The US dollar is declining in value against the euro and pound, a trend that is very likely to continue for the year or two. Thus US retail assets are becoming cheaper. From a pure pricing perspective, now is a good time to acquire US assets. Moreover, in the realm of apparel and home fashion, US consumers are increasingly amenable to new products and brands, especially if they come with a strong value proposition – hence the initial success of H&M. US consumers are tiring of the sameness they find in shopping centers. That explains the popularity of off-mall discount concepts. In the realm of food and mass merchandise, European retailers have already claimed a considerable stake in East Coast grocery stores. Yet there remain several large European food retailers with no US subsidiaries. For them, investments in the rest of the US could be very attractive, especially if there are synergies to be had. Europeans bring to the table exceptional food merchandising, while US retailers offer strong supply chain management and increasingly global purchasing operations. A combination could add value on both sides of the Atlantic.

Will US retailers finally become more global?

Leading US retailers would be wise to think globally – and not just about sourcing. Why is now a good time for them to look toward foreign consumer markets? There are several reasons: _ In most major segments, US retailers face the prospect of market saturation combined with slow spending growth. Moreover, ruinous price competition, driven in part by the success of discounters, means that margins will be threatened. Foreign markets, especially emerging ones, offer the potential for faster growth, less intensive competition, more pricing flexibility, and the ability to leverage existing supply chain infrastructure. _ European retailers have been investing outside their home markets for years. Today, most of the foreign retailers in leading emerging markets are European, not American. For US based retailers, the day is nearing when it will be too late to get into some of the world’s leading markets without facing serious competition. _ US retailers going global today have the advantage of learning from the failed efforts of the past.
We’re much further along the learning curve than was the case in the mid-1990s – the last time globalization attracted mass attention. And with an increasingly global supply chain, globalization should be less troublesome logistically than was the case in the past.

Globalization is continuing process which could not be avoided by every nation in this world where the globalization trends contribute big impact toward society life and toward the development of retail industry. The impact of globalization toward society can be seen on the changing in several aspects such as economic, politic and legal, social and culture, and technology as well. Meanwhile the globalization impact toward the development of retail industry can be seen on online retailing activities and on the internalization process of retail operation.

2.4.9 GLOBALIZATION TRENDS
Globalization or the global exchange of goods and ideas between human populations is a process that has been existed for 2.5 million years, but that has been intensified during the last 500 years, mainly under the influence of the Western European expansions. (Schulp, 2006). Every nation in all around the world experiences the process of globalization and its effect on the country and its society, starting from the high developing countries to developing countries and until the under developing countries as well.

Charles (2003) argued that the process of globalization creates a fundamental shift that is occurring in the world economy, from the isolated economy by barriers to cross border trade and investment: by distance, time zones, and language, by national differences in government regulation, culture, and business systems; moving rapidly toward a world in which barriers to cross border trade and investment are tumbling, perceived distance is shrinking due to advances in transportation and telecommunication technology, material culture is starting to look similar the world over, and national economies are merging into an interdependent global economic system.

The processes and the effects of globalization are different from one country to the others based on its condition of the economics, politics, and culture, but in general there is a pattern of the trends of globalization. This analysis will describe the trends of globalization and its impact on the reflexive society and on the development of retail industry.

The first trend of globalization is the emerging of connecting technologies all around the world. Those connecting technologies are computer, information, communication, and transportation. (Kotler and Amstrong, 2004). Computer makes life become easier either in individual activities or in business activities. People meet and use the computer technology in their daily life, starting from the personal computer or notebook, the ATM (Automatic Teller Machine) system and online banking system, the traffic light system on the street, until the cashier system on the stores.

The technology on the computer system can not be separated to the technology of communication and information system, because that kind of technology is one unity in supporting and complementing each other. Computer becomes a media in communicating, searching, and exchanging the information across the limitation of time.
and space through the internet and through the World Wide Web (www) system. The internet is truly a global phenomenon; the total internet users worldwide in 2005 reach 1.12 billion users or it’s around 18% from the total human population in the world. (Charles, 2003). The technology of computer, communication, and information leads the worldwide into the new era of digital world.

The last connecting of technologies is in transportation field, they are development of containerizations and innovation of jet airplane. Containerizations help individuals or businesses increase the effectiveness and efficiency in transporting goods internationally. This transportation technology brought the world more than US$ 1.2 billion in foreign exchange transaction made everyday. Whereas the innovation of jet airplane helps individuals or business people moving from one place to other places effectively and efficiently.

The second trend of globalization is the declining trade and the investment barriers worldwide. The impacts of this trend can be divided into two components; they are the globalization of market and the globalization of production. The globalization of market refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross border trade have made it easier to sell internationally. It has been argued for sometime that the taste and preferences of consumers in different nations are beginning to converge on some global norm by offering standardized global product worldwide that help create global market. (Charles, 2003).

While the globalization of production refers to the sourcing of goods and service from location around the globe to take advantage of national differences in the cost and quality of factors of production (labor, energy, capital). For business, the globalization has increased the opportunities for a firm to expand its revenue by selling around the world and reproducing its costs through production in nations where key inputs are cheap.

**The Typology of Reflexive Society**
The word society is meant a conglomerate of people living according to shared norms and value, more or less within the same culture. There are so many names of the society based on the point of view used such as post modern society, post traditional society, reflexive society, post industrial society, service society, and consumer society. (Tjallinks, 2006). This analysis will focus on the typology of the reflexive society by projecting the concept into the society in Indonesia. The consideration in using the projection to a certain society is to help the understanding of the concept of the reflexive society comprehensively. The Indonesian society is chosen because that society is in the transition period from the industrial society into the reflexive society; therefore it is interesting to make that society as the object for study analysis.

Anthony Giddens (1999), an author on globalization issues, described the main points of the typology of the reflexive society as follows; the first point is the reflexive society put communication and information as the important things at the level of the world society and at the level of personal life as well. Communication is become an important thing for
Indonesian society, according to Roy Suryo, the Indonesian communication expert, stated that there were 53 million types of cellular phone for 220 million of the total population and the average level of growth in cellular industry is 84% from 1995 to 2002. The cellular phone was luxury good and owned only by rich people in 5 years ago but nowadays it is become like an ordinary goods. Many people from all social class in Indonesian society use the communication technology either for personal or business purposes. (cited in Wiering, 1999).

Information plays an important role in Indonesian society especially in the urban areas; people use the internet, read the newspaper or magazine, and watch news and talk show at television in order to gain the information that they are needed in their daily activities, work and life. Meanwhile there is a very limited of role of information on the people who lived in the rural areas. This condition occurred because the urban area is more developed in many aspects than rural area.

The second point is the tradition and custom are no longer have the role that they used to have and they are replaced by the reason and argument. Indonesian society and many others society in the eastern countries tend to retain the tradition and custom as the fundamental values and norms in their life and behavior. However the young and well educated generation in Indonesian society is become more open to that change than the old and traditional generation.

The third point is people in the reflexive society more concern about their environment and nature. This concern is established since the children have started their first formal education in the school but on the contrary many Indonesian people especially in the rural and sub urban area only put that concern just as knowledge and didn’t implement it on their daily life. Throwing garbage on the river or gutter and burning the trash is the simple example on that condition. But on the other hand, many of Non Governmental Organization (NGO) started to come forward and struggled for the natural interest.

The fourth point is the equality of treatment and opportunity for everyone in the society. Many years ago there was discrimination for the Chinese people who lived in Indonesia. The discrimination was conducted by the government through the policies and regulation in many aspects such as in education, politic, economy, etc. This situation and condition become worse when the Indonesian (local people) society also discriminated the Chinese in their daily life. Many efforts are done by the Chinese people and also local people who disagree with the discrimination. The result is on July 2006 the government issued the new law in term of citizenship which eliminated the discrimination. This progress is leading Indonesian Society into the reflexive society as well.

The fifth or the last point is the using of dialogue in solving the problem at the society level and at the personal level as well. This approach is becoming popular in Indonesian Society since the reformation era in 1998 when the former authoritarian president resigned because of the people power. The reformation era bring the democracy in the political development and in the way people express their opinion and aspiration. In politic, people have right to choose the parties that they trust and also have right to
express their aspiration through many ways such as public demonstration for example. Another example, in a company whenever there is working conflict between the company and its employee then the dialogue and discussion will be used to solve the problem instead of forcing the employee to commit to organizational interest only (Sukarno and Djati, 2005).

2.4.10 ANALYSIS OF GLOBALIZATION TRENDS WITHIN THE SOCIETY
The globalization trends create the changes in macro dimension of the environment of the society such as economic, politic and legal, social and culture, and technology. Below are the detail explanations about the globalization trends on the society.

**Economic Analysis**
The changes in the economic dimension lead the society enter the world or global economy. The world economy has changed profoundly since World War II. Perhaps the most fundamental change is the emergence of global markets, global competitor, and the integration of the economic. Those fundamental changes bring the reality of the world economy; they are the increasing of volume of capital movements, the concerns of the relationship between productivity and unemployment, and the emergence of the world economy as the dominant economic unit. (Keegan, 2002).

The increasing of the volume of the capital movements is become more popular since the emerging of the integration of the economic such as Europe Union and Free Trade Area Organization worldwide. The effect of that condition is that many multinational and international companies expanded their business outside their origin country. Therefore, nowadays it is easy to the people in the society in experiencing the global products and brands. Many global brands compete with the national and local brands; therefore the companies attempt to attract the customer with all kind of promotion and program offering. This situation led the society into the consumerism era and it raising the concept of consumer society.

The globalization trends in economy increased the production of manufacturing products but on the other hand it increased the level of unemployment as well. The western companies replaced their manufacturing unit into the eastern countries which offered the higher productivity and the lower costs. Many experts from high developing countries moved to developed countries and fill the good job position in the companies. The people in the society whom aren’t competent and qualified will lost their job or they have less job opportunities.

**Political and Legal Analysis**
Globalization has changed the political and legal role in its society, in which the government reduced its control over the economics. The integration of economic and the Free Trade Organization are the main reasons behind the situation. (Penar, 1999). However, the government especially in developing and under developing countries still attempted to protect their own local and national economic interests by issuing economic policies and regulation such as taxes, quota, protection, etc.
The imitation and duplication of global brands by local players are the common problem that many multinational and international companies faced in the developing and underdeveloping countries. The regulation in patent and copyright is the main solution to solve these problems.

Another problem related with the emerging of global products and brands is the boycott or the demonstration of the local people in the society whom are in particular business field to the global brands which are evaluated as the cause of the destruction of their business.

The entire situation and condition above made the politicians had to be careful in issuing and establishing the policy or regulation by balancing the international and the national interests. If they supported more on the national interests than the international ones, consequently the country will face a problem with the international trade law and agreement and perhaps it is possible to be suffered by the international punishment like economic embargo. On the other side, if they supported more on the international interests than the national ones, consequently they will lose the support from the people in the society.

Social and Culture Analysis
Hofstede and Bond (1988) argued that the culture is the collective programming of the mind that distinguishes the members of one category of people from those of another. Anthropologist and sociologist define culture as the way of living in the context of social institution, educational institution, religious institution, governmental institution, and business institution, built up by a group of human beings, which are transmitted from one generation to another. (cited in Keegan, 2002)

Globalization transform the social and culture in the society into the cultural universals, which means that a universal mode of behavior existing in all cultures. The partial list of cultural universal according to George P. Murdock (1945) includes the following athletic sports, body adornment, cooking, courtship, dancing, decorative art, education, ethics, etiquette, family feasting, food taboos, language, marriage, mealtime, medicine, mourning, music, property rights, religious rituals, residence rules, status differentiation, and trade. (cited in Keegan, 2003).

The cultures of the people in the society begin to disperse and begin to absorb the cultural universal. Mooij (1998) described the global culture as the expression of culture, the symbols, converging eating habits, and global heroes, particularly those who appeal to young. The core values of culture are stable and often what is presented as a new trends or global trends is a newly packaged core value.

Technology Analysis
Technology in communication, computer, and information play the important role in the process of globalization. People in the society are connected and shared information across the boundaries of space and time by using those technologies. The society more depended on the information as their guidance in their daily activities than the culture and
custom. The people on the society begin to received the different opinion and insight of others and treat others equally as well (Giddens, 1999, cited in Wiering, 1999).

2.4.11 THE RELATIONSHIP BETWEEN GLOBALIZATION TRENDS AND DEVELOPMENT OF RETAIL INDUSTRY

The rapid and continuing globalization of the world economy means that globalization of retailing activities is a major management issue for most large retailers today and is likely to intensify in the coming decades. (Varley and Rafiq, 2004). This analysis give some limitation toward the impact of globalization trends on the development of retail industry into two main components, they are the emerging of on line retailing (e-commerce) and the internalization of retail operation. This limitation established in order to make this analysis stay on the focus and in consideration that the on line retailing represent the impact of globalization trends in the technology of computer, communication and information; meanwhile the internationalization of retail operation represent the impact of globalization trends in containerization and the declining of trade barrier worldwide.

The technology of information, computer, and communication create the concept of on line retailing, which means that customers don’t need to visit a store but they can shop a product through the internet from home, working place, school, or elsewhere. According to Boston Consulting Group (1999), on line retailing in total has certainly grown significantly in term of sales from a few million dollars in 1995 to an estimated 36 billion dollars in 1999. However, the pattern of growth is not consistent across all product categories, company types, or indeed, between companies based in different countries. There are many types of product which are commonly offered through the internet like books, clothes, electronic products, insurance products, gifts, etc. (cited in Keegan, 2002)

Kotler and Amstrong (2004) explained that there are several benefits to the retailers which conducted the on line retailing. The first benefit is giving the opportunity to the retailers in building customer relationship because the retailers can interact on line with the customers to learn about specific needs and wants, moreover the customers can propose questions and give the feedback to the retailers. The second benefit is the reduction in costs and the increasing of speed and efficiency. By implementing on line retailing, the retailers avoid the expense of maintaining a store and other operation costs. The third benefit is that retailers can manage its supply chain activities like order processing, inventory handling, delivery, and trade promotion efficiently. The fourth benefit is the greater flexibility for retailers in adjusting the offering to the customer and the last benefit is the opportunity for retailers in connecting to global customers.

On line retailing is truly a big phenomenon in the retail industry worldwide because it changed the way people in doing transaction and it created the concept of non store retailing format. Nowadays, the on line retailing become a serious competitor to the fixed store retailing. Therefore many traditional retailers have tried to develop their own presence on the internet (Davies and Ward, 2002).

Another issue regarding the impact of the globalization trends in the development of retail industry is the internalization of retailers which means that the retailers do
expansion of its retail operation in order to reach international market. Keegan (2002) pointed out several alternatives in reaching international market that are sourcing, licensing, and investment. The first alternative is sourcing which means that the retailers exported product from the origin country in order to be sold to the other countries. The flows of electronic products are the example where the high developing countries used the technology and after several time they exported its products into the developing countries or under developing countries as well.

The second alternative is licensing which means the contractual arrangement whereby one company (licensor) make an asset available to another company (the licensee) in exchange for royalties, licenses fees or some other form of compensation. (Root, 1994, cited in Keegan, 2002). This alternative boasted international retailers in expanding their business outside the origin country. Mc Donalds, Pizza Hut, Sport Station, Mango and many others international retailer are the examples of the licensing implementation.

The last alternative is investment which means the retailers invest their funds in certain country outside the origin country. This alternative is more risky than the second alternative because the investment required a great sum of money and has to deal with the macro dimension in the society directly. Many giant international retailers such as Carefour, Wall Mart, etc did investment in developing countries and reached big profit from it.

2.4.12 CONCLUSION

Globalization is a continuing process that creates the trends which provide its impacts on the society and on the development of retail industry as well. The emerging of connecting technologies and the declining trade and investment barriers worldwide are the main of the globalization trends. Those trends changed the macro dimension of the society such as economic, political and legal, social and culture, and technology. This changing led the society into the global world where the global products and brands, and global culture become more popular within the society. Meanwhile those trends also influenced much on the development of the retail industry. The retailers begin to enter the new international and global market to serve the global customers in the global competition.

Retail in the Era of Globalization The retailing industry in India estimated at Rs 930,000 crore (2003-04) is expected to grow at 5% p.a. In line with predictions made in 2002, organised retailing is well on its way to become a Rs 35,000 crore market by 2005. The size of organised retailing market stands at RS 28,000 crore in 2004, thereby, making up a mere 3% of the total retailing market.

Moving forward, organised retailing is projected to grow at the rate of 25-30% p.a. and is estimated to reach over an astounding Rs 100,000 crore by 2010. Its contribution to total retailing sales is likely to rise to 9% by the end of the decade.

In this scenario of feverish activity, this paper aims to map the global scene to the Indian retail Industry. It looks at the factors that have been fuelling this boom so far and what will drive the growth of the industry in the future. Urban India represents only a fraction of the opportunity that the retail sector can hope to exploit. Significant portion of future
growth has to come from the rural market. This paper takes a look at the modern retailing formats being experimented with, both in the cities and the countryside and highlights how they are different from one another.

To fully harness the potential benefits that a huge leap in retail can offer to all its stakeholders in India, the roadblocks in its way have to be removed. This paper analyses the issues that currently impede the realisation of the maximum progress possible. It also tries to come up with recommendations that, if implemented, can provide a fillip to the current growth rate of the industry and truly make the Indian Retail Revolution a success story that the world will have to sit up and take notice of.

Retailing is the final step in the distribution of merchandise - the last link in the Supply Chain - connecting the bulk producers of commodities to the final consumers. It covers diverse products such as food, apparels, consumer goods, financial services and leisure.

The value proposition that retail offers to a consumer is easy availability of the desired product in the desired size at the desired time.

Retailing In India

- Total Consumer Spend in the Year 03-04 - INR 9300 billion (USD 375 billion) growing over 5% annually
- Retail sales - 55% at INR 280 billion (USD 205 billion)
- Organised Retail - Only 3% but growing at 30%
- Organised retail to cross INR 1000 billion mark by 2010
- INR 200 billion investment in the pipeline
- Top 6 cities account for 66% of total organized retailing

Trends Affecting Indian Retail Industry

- Changing age profile & Disintegration of joint family
  India is believed to have an average age of 24 years for its population as against 36 years for the USA and 30 years for China. A younger population tends to have higher aspirations and spends more as it enters the earning phase. Also, nuclearisation of families has led to enhanced demand.
- Growing disposable income
  More Indian households are getting added to the consuming class with the growth in income levels. Also, with declining interest rates, the aversion of domestic consumers to taking loans is also fast disappearing.
- Globalization
  Growing media penetration is leading to a convergence of aspirations of various classes of consumers, bridging the rural-urban divide. The modern consumer cannot be satisfied by any product or service that is lesser in quality than the best offered in any other place on the globe.
Till 1980s, India knew only kirana stores. Things started to change slowly after that, with companies like Bombay Dyeing, Raymond's, S Kumar's and Grasim opening their company owned outlets. Later on, Titan, maker of premium watches, successfully created an organized retailing concept in India by establishing a series of elegant showrooms.

In recent years in line with the global retail scenario, India has seen different retail formats being experimented with.

_Retail Formats_

Broadly, the organized retail sector can be divided into 2 segments.

- **In-store Retailers:** Operate through fixed point of sale outlets located and designed to attract a high volume of walk-in customers. Also referred to as brick-and-mortar format.
- **Non-store Retailers:** Reach out to the customers at their homes or offices through direct selling, tele marketing and e-commerce.

Major formats of In-store retailers have been listed in Table below:

<table>
<thead>
<tr>
<th>Format</th>
<th>Description</th>
<th>Value Proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branded Stores</td>
<td>Exclusive showrooms either owned or franchised out by a manufacturer.</td>
<td>Complete range available for a given brand, Certified product quality.</td>
</tr>
<tr>
<td>Specialty Stores</td>
<td>Focus on a specific consumer need, carry most of the brands available.</td>
<td>Greater choice to the consumer, comparison between brands possible.</td>
</tr>
<tr>
<td>(Multi-Brand)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department Stores</td>
<td>Large stores having a wide variety of products, organized into different departments, such as clothing, house wares, toys, etc.</td>
<td>One stop shop catering to varied consumer needs, service as differentiator.</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>Extremely large self-services retail outlets.</td>
<td>One stop shop catering to varied consumer needs.</td>
</tr>
<tr>
<td>Discount Stores</td>
<td>Stores offering discounts on the retail price through selling high volumes and reaping the economies of scale.</td>
<td>Low prices.</td>
</tr>
<tr>
<td>Hyper-mart</td>
<td>Larger than a Supermarket, sometimes with a warehouse appearance, generally located in quieter parts of city.</td>
<td>Low prices, vast choice available including services as cafeterias.</td>
</tr>
<tr>
<td>Convenience Stores</td>
<td>Small self-service formats located in crowded urban areas.</td>
<td>Convenient location and extended operating hours.</td>
</tr>
<tr>
<td>Shopping Malls</td>
<td>An enclosure having different formats</td>
<td>Variety of shops available</td>
</tr>
</tbody>
</table>
Of the Top-200 Global Retailers, 21% of retailers fall in the specialty stores category, followed by 18% in supermarket, 12% in department and 9% each in hypermarket and discount stores.

_Retail Formats in India_

Indian retail formats can be classified into two distinct categories: traditional and modern.

**Traditional Formats include:**
- Kiranas: Traditional Mom and Pop Stores
- Kiosks
- Street Markets
- Exclusive / Multiple Brand Outlets

**Modern Formats include:**
- Supermarkets such as Foodworld
- Hypermarkets such as Big Bazar, Giant, Shoprite, Star
- Department Stores such as Shoppers Stop, Lifestyle, Pantaloons, Piramysds, Trent
- Speciality Chains such as Ikea
- Company Owned / Operated such as Bata, Sony

**Forecourt Retailing**

This concept recently shot into limelight with oil companies trying to milk this revenue stream for more moolah. Apart from dispensing fuel, the stores offer value added services to busy consumers. This strategy is currently aggressively being pursued by IOC, BPCL, HPCL and Reliance.

**Trade Parks**

A new emerging concept in retailing is the establishment of business complexes particularly for international trade. Some of the examples are India Exposition Mart set up by Handicraft Export Promotion Council in Greater Noida, International Home Deco Park (IHDP) set up by a group of private investors in Noida and World Trade Park coming up in Jaipur. IHDP will provide International buyers ready access to 60 world class exporters from India in the Home Furnishings category. This would be beneficial to buyers as they would not have to go to remote towns (where the infrastructure is not good) to see the designs and samples of exporters. Exporters apart from getting increased visibility will also get other facilities such as design library, design studio, forwarding services and so on. The parks are built to promote trade and are open to international buyers and buying houses only.

_Retail Format Model for India_
The key to a winning retail format is to follow a model that suits the Indian consumer behaviour. One big undisputable fact is that almost all retail players (especially in food) have been region-specific. So whether it is FoodWorld, Nilgiris, Margin Free Market, Giant, Varkey's and Subhiksha in the South, Sabka Bazaar only in and around Delhi, Haiko in Mumbai or Ahmedabad-based Adani, they have clearly battled with scalability.

Issues to be tackled
Scaling has multiple implications. Ideally, it is an attempt to increase market share/revenues or growth. But the question is: How does it affect operations? Does it mean reduction in assortment, shift to standardisation and reduced customisation? Where to scale, up, down or out? When to scale? Should a FoodWorld replicate its South-based format in a Delhi? And what happens when it wants to go to other 10 million+ towns? And then lower down the pop strata? (More real estate space is available in smaller towns, but do the footfalls justify the bigger box format?)

Need for multiple formats
Clearly, a retailer needs different formats for different town classes - but then what happens to economies of scale via standardization? A good way out is the way the RPG group is treating its Music World stores - flagship vs. smaller vs. the express outlets located in, say, a FoodWorld. Similarly, the way ABC has defined Café Coffee Day outlets - flagship vs. takeaway.

Most of the global powerhouses in the retailing sector such as Wal-Mart, Carrefour, Tesco etc have adopted multi-format and multi-product strategies in order to customize their product offering for distinct target segments (refer table below).

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Formats</th>
<th>Product Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>Discount, Warehouse, Neighbourhood Convenience Stores</td>
<td>Hypermarkets, Clubs, Stores, Services, Appliances, etc.</td>
</tr>
<tr>
<td>Tesco</td>
<td>Supermarkets, Neighbourhood Stores, Catalogue</td>
<td>Hypermarkets, Stores, Internet, Clothing, Home Products, Fuel, Automobile, etc.</td>
</tr>
<tr>
<td>Carrefour</td>
<td>Hypermartks, Stores, Supermarkets</td>
<td>Convenience, Food &amp; Grocery, Clothing, General Merchandise, etc.</td>
</tr>
</tbody>
</table>

In line with the global evolution, Indian Retailing has also witnessed a series of experiments across the country with new format being tested out; old ones tweaked around or just discarded. Some of these are listed in the table below:

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Old Format</th>
<th>New Format Experimented With</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shoppers' Stop</td>
<td>Department Store</td>
<td>Quasi-mall</td>
</tr>
<tr>
<td>Ebony</td>
<td>Department Store</td>
<td>Quasi-mall, smaller outlets, adding food retail</td>
</tr>
</tbody>
</table>
Indian Rural Market

Opportunity

The importance of the rural market is underlined by the fact that the rural market accounts for close to 70 per cent of toilet-soap users, 38 per cent of all two-wheeler, half of all TV sets, fans, pressure cookers, bicycles, tea, salt and toothpowder sold. What is more, the rural market for FMCG products is growing much faster than the urban counterpart.

Problems in Rural Marketing

Although the rural market does offer a vast untapped potential, it should also be recognized that it is not that easy to operate in rural market because of several obstacles. The major problems faced are: -

- Underdeveloped people markets
- Lack of proper communication facilities
- Poor media reach
- Many languages and dialects
- Dispersed market
- Low per capita income
- Low levels of literacy
- Prevalence of spurious brands and seasonal demand

Understanding the Market

Rural marketing is a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems. The alternative 4As Model when applied to the rural retailing scenario comes up with the following challenges: -
Availability
India’s 627,000 villages are spread over 3.2 million sq km. However, given the poor state of roads, it is an even greater challenge to regularly reach products to the far-flung villages. To service remote villages, stockists use auto-rickshaws, bullock-carts and even boats in the backwaters of Kerala.

Affordability
With low disposable incomes, products need to be affordable to the rural consumer, most of who are on daily wages. Some companies have addressed the affordability problem by introducing small unit packs.

Acceptability
There is a need to offer products that suit the rural market. Because of the lack of electricity and refrigerators in the rural areas, Coca-Cola provides low-cost ice-boxes - a tin box for new outlets and thermocol box for seasonal outlets.

Awareness
Mass media is able to reach only to 57% of the rural population. Creating awareness then, means utilizing targeted, unconventional media including ambient media. For generating awareness, events like fairs and festivals, Haats, etc., are used as occasions for brand communication.

Developments in Rural Retailing

ITC’s Chaupal Sagar
Chaupal Sagar is one of the first organised retail forays into the hinterland. It has been initiated as rural shopping-cum-information centres in Madhya Pradesh. The first rural mall has come up 40 kilometres from Bhopal towards Sehore. Chaupal Sagar offers almost everything - from toothpastes to televisions, hair oils to motorcycles, mixer-grinders to water pumps, shirts to fertilizers. Most of the brands it sells are national such as Marico, LG, Philips, torches from Eveready, shirts from ITC’s apparel business, bikes from TVS, and tractors from Eicher.

Some other facilities on offer include:

- Banking and automated teller machines
- Insurance products for farmers
- Entertainment facilities
- Restaurants
- Fuel pump in tie-up with BPCL
- Cafeteria
- Parking lot for 160 tractors
- Primary healthcare facility
- Information centres
- Training facility on modern farm techniques
- Godowns for storing the wheat and soybean and also for stocking products retailed at the mall

DSCL's Haryali Bazaars
Having successfully pioneered a new concept of Haryali Kissan Bazaars in 2002 in Hardoi, agri-inputs focused DCM Sriram Consolidated Ltd. (DSCL) opened eight more (Ladwa in Haryana, Ferozepur in Punjab, Kota in Rajasthan and four locations in UP).

The store complex is spread over 2-3 acres and caters to all the farmers requirements (both DCM Sriram products & other sources): farm inputs ((fertilizers, seeds, pesticides, animal feed), farm implements, spare parts, irrigation equipment, spraying equipment. Twenty such stores, each catering to 100 villages, are planned by the end of 2005.

HLL's Project Shakti
Project Shakti is Hindustan Lever Ltd's (HLL) rural self-help group initiative to push the penetration of its products to reach areas of low access and low market potential.

To get started the Shakti woman borrows from her "Self Help Group" and the company itself chooses only one person. A Shakti entrepreneur receives stocks at her doorstep from the HLL rural distributor and sells direct to consumers as well as to other retailers in the village. Each Shakti entrepreneur services 6-10 villages in the population strata of 1,000 - 2,000 people.

The women avail of micro-credit through banks. Some of the established Shakti dealers are now selling Rs. 10,000 - Rs. 15,000 worth of products a month and making a gross profit of Rs. 700 - Rs. 1,000 a month. The company is creating demand for its products by having its Shakti dealers educating consumers on aspects like health and hygiene.

Others
Marico launched a major initiative into rural markets by appointing 2,400 sub-stockists in the last two years. Recently, Dabur recently finished a pilot project for its super-stockists in Patna and has now rolled it out in Bihar, Madhya Pradesh and Rajasthan. Reckitt has also adopted the super-stockist system in Tamil Nadu and plans to set up such a system all over the country in the next year, with the target of covering one million outlets in the next three years.

The Rural Remedy

The business model for rural retail can be successful only when integration between the profit and social motive is apparent. The social angle needs to be pronounced for it to be acceptable. The model should empower the rural consumer and at the same time take advantage of this empowerment through creation of demand for its own products and that of its partners.
The roadblocks in the way of retail revolution hamper the growth of the industry both in urban and rural areas. These bottlenecks if not removed have the potential to retard the rapid progress that this sector has been witnessing.

Regulations in Retail Industry

The policy environment is currently seen to be unfavourable to organised retailing. Some of the impediments to growth of retail include the following:

Restrictions on FDI

Recent indications that the government is considering foreign direct investment in retail trade have sparked off a debate on the advisability and consequence of this policy. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law.

Some of the areas in retailing that will be affected by FDI are as follows:

- Creating Additional Jobs
- Diminution of Kirana Shops and Retail Stores
- Access to Larger Financial Resources
- Benefit to Consumers
- Supplier Quality Enhancements
- Enhanced Supply Chain
- Increased Exports
- WTOs Cross Retaliation

Verdict on FDI

Market is an important asset. It needs to be protected the way other assets are protected. However, it is clear that FDI in retail trade will lead to incremental economic benefits and not substitute on-going activities. Any strategy in the direction of FDI should ensure that domestic players are not unduly displaced and sufficient opportunities are available for the growth of domestic players. Therefore, the strategy should be controlled release of restrictions on FDI. Percentage of FDI allowed should be increased in small amounts and for specific commodities at every step. Constructive suggestions and inputs from all stakeholders should be taken in shaping the policy.

Land and property Laws

There is a shortage of good quality retail space, and rents are high for what is available. Compounding these shortages are the following problems:

- Only Indians can own property in India, which complimenting the restrictions placed on FDI, restrict the entry of foreign players.
- Stamp duties on property deals are significant. The lease alone can cost up to 6-10 per cent of sales while it's just 3-5 per cent globally.
• The initial urban planning of cities was done with smaller plots in mind which along with rigid building and zoning laws make it difficult for procurement of retail space.
• The urban land ceiling act and rent control acts have distorted property markets in cities, leading to exceptionally high property prices.

Labour Laws

The labour laws instituted to protect store workers are not flexible enough to support the modern formats of retailing. These rigidities in the law constrain the operations of modern retail outlets. Working hours are restricted, with shops required to close one day of the week and the hiring of part-time employees is difficult.

Taxes

Effective corporate tax rate is 36.59% for a local company and 41.82% for a foreign company. Even essential basic foodstuffs are taxed.

The varying sales tax rate across states makes supply chain management an even more difficult task for retailers. However, with the introduction of Value Added Tax (VAT) across all states, some of the sales tax anomalies in the supply chain could get correct over a period of time.
TYPES OF RETAIL ORGANIZATION HIGH VOLUME

Structure
3.1 Introduction

3.2 Departmental Store
   3.2.1 Definition
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3.6 Conglomerates
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   3.6.5 The World's Largest Conglomerate Companies
3.6.6 Will The Conglomerates Survive In India?

3.1 INTRODUCTION

Dear Students, you will come to know about the following while reading the contents of this unit.

1. What trends are shaping today’s retailers
2. What are the different types of retailers
3. How do retailers differ in terms of how they meet the needs of their customers?
4. Comparison of the retailers

You want to have a good cup of coffee in the morning, not instant, but you don’t want to bother with grinding coffee beans, boiling water, pouring it through ground coffee in a filter, and waiting. Think of all the different retailers that would help you satisfy this need. You will get your cup of coffee from the drive-through window, or would you decide to buy an automatic coffee maker with a timer. In order to buy this coffee maker you would think of a number of retailers.

All these retailers are competing against one another to satisfy your need. Many sell the same brands but they offer different services, prices, atmospheres, and convenience. Now let us discuss on some of the types of retailers.

Retailing includes all the activities involved in selling goods and services directly to final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing. Any organization selling to final consumers – whether it is a manufacturer, wholesaler or retailer – is doing retailing. It does not matter how the goods or services are sold (by person, mail, telephone, vending machine, or internet) or where they are sold (in a store, on the street, or in the consumer’s home).

Consumers today can shop for goods and services in a wide variety of retail organizations. These are store retailers, non-store retailers, and retail organization. Perhaps the best-known type of retailer is the departmental store. Retail – store types pass through stages of growth and decline that can be described as the retail life cycle. A type emerges, enjoys a period of accelerated growth, reaches maturity, and then declines.

Now let us discuss on the type of retailers based on low volume.

3.2 DEPARTMENTAL STORE

3.2.1 DEFINITION

A department store is a retail establishment which specializes in selling a wide range of products without a single predominant merchandise line. Department stores usually sell products including apparel, furniture, appliances, electronics, and additionally select other lines of products such as paint, hardware, toiletries, cosmetics, photographic equipment, jewelry, toys, and sporting goods. Certain department stores are further
classified as discount department stores. Discount department stores commonly have central customer checkout areas, generally in the front area of the store. Department stores are usually part of a retail chain of many stores situated around a country or several countries.

3.2.1 HISTORY

The oldest department store in the world is 'Austin's' in Derry, Northern Ireland, which has maintained its original position on The 'Diamond' in Derry's city centre since 1830.

Aristide Boucicaut founded **Le Bon Marché** in Paris in 1838, and by 1852 it offered a wide variety of goods in "departments" inside one building. Goods were sold at fixed prices, with guarantees allowing exchanges and refunds. By the end of the 19th century, Georges Dufayel, a French credit merchant, had served up to three million customers and was affiliated with La Samaritaine, a large French department store established in 1870 by a former Bon Marché executive.

As **Le Bon Marché** evolved into a fully fledged department store in the early 1850s, Delany's New Mart opened in 1853 in Dublin, Ireland on Sackville Street (now O'Connell Street). What made Delany's different from most department stores of its time was its purpose-built nature; unlike others it had not evolved gradually from a smaller shop on site. Constructed to a lavish standard on the city's principal street, it was designed to rival the biggest and best in Europe. Acquired by the Clery family in the late 19th century, both the store and Imperial Hotel located in its upper floors were completely destroyed in the 1916 Easter Rising. However the store reopened in 1922, this time across numerous floors, as the famous Clerys department store that stands today, housed in a striking modern neoclassical building based on Selfridges of London.

Another claimant to the title of "World's first department store" is Bainbridges in Newcastle upon Tyne, founded in 1838 as a drapers and fashion shop but on record as collecting its takings by department as early as 1849. The ledger from that year still survives in the archives of the John Lewis Partnership who bought the store in 1952, and retained its original name until 2002 when the store was rebranded as John Lewis Newcastle. That is sorted goods out into Departments in 1849, three years before Le Bon Marche in Paris did the same, and there is a strong case for Bainbridges being the world's original department store.

**David Jones** (Australia) was started by David Jones was a Welsh merchant who met Hobart businessman Charles Appleton in London. Appleton had established a store in Sydney in 1825 and Jones subsequently established a partnership with Appleton, moved to Australia in 1835, and the Sydney store became known as Appleton & Jones. When the partnership was dissolved in 1838, Jones moved his business to premises on the corner of George Street and Barrack Lane, Sydney. Jones survived the depression of the 1840s, and by 1856 had retired from active management of the business. A few years later when the firm failed he returned to manage its affairs and in a few years had fully discharged all obligations to his creditors. By 1887, the George Street store had been
rebuilt and a mail order facility introduced. A factory was opened in Marlborough Street, Sydney to reduce reliance on imported goods. David Jones is claimed to be the oldest department store in the world still trading under its original name.

Lewis's (United Kingdom) may have been the first most progressive department store group. By 1956 it had the largest stores in the provinces of the UK and had brought the idea of department selling across the country. It started in Liverpool in 1856 and catered for all classes aiming to have the highest quality and lowest prices. David Lewis may have been the catalyst to making tea easily available to the working classes. (Lewis's 2/- tea). It did this by buying the tea direct from the shippers from its home in Liverpool and cutting out the middle man. Lewis's also experimented in new ways of advertising (e.g. flooding the basement of the Manchester store to create a mini Venice.) It's grotto's always were and still are well known through generations of people from Northern Britain. Since 1856 it had stores in Manchester (1877), Liverpool (1856), Birmingham, Glasgow, Liverpool (The Bon Marche), Leeds, Hanley, London (Selfridges), Bristol and Leicester. The group's first and final store, in Liverpool, went into administration in 2007 and was purchased as a going concern by Vergo Retail Limited. Enabling the store to continue trading under the Lewis's brand.

In New York City in 1846, Alexander Turney Stewart established the "Marble Palace" on the east-Broadway, between Chambers and Reade streets. He offered European retail merchandise at fixed prices on a variety of dry goods, and advertised a policy of providing "free entrance" to all potential customers. Though it was clad in white marble to look like a Renaissance palazzo, the building's cast iron construction permitted large plate glass windows. In 1862 Stewart built a department store on a full city block at Broadway and 9th Street, opposite Grace Church, with eight floors and nineteen departments of dress goods and furnishing materials, carpets, glass and china, toys and sports equipment, ranged around a central glass-covered court. Within a couple of decades, New York's retail center had moved uptown, forming a stretch of retail shopping from "Marble Palace" that was called the "Ladies' Mile". In 1858 Rowland Hussey Macy founded Macy's as a dry goods store. Benjamin Altman and Lord & Taylor soon competed with Stewart as New York's first department stores, later followed by "McCready's" and, in Brooklyn, "Abraham & Straus." (The Straus family would be in the management of both Macy's and A&S.)

Similar developments were under way in London (with Whiteleys), in Paris (with La Samaritaine) and in Chicago, where department stores sprang up along State Street, notably Marshall Field and Company, which was the second-largest department store in the world prior to converting to Macy's. In 1877, Wanamaker's opened in Philadelphia. Philadelphia's John Wanamaker performed a 19th century redevelopment to the former Pennsylvania Railroad terminal in that city and eventually opened a modern day department store in the building.

On March 1, 1869 Zion's Cooperative Mercantile Institution was opened in Salt Lake City as a new community store that became the first incorporated department store in America in 1870. A new 3-story brick and iron store was built in 1876, noted for its
unique architecture and striped awnings. This store was replaced by an enclosed shopping center in 1973, and the new Zion department store preserved the gilt-edged ornate facade of the old store. In 1999 the May Department Stores bought a 14-store ZCMI chain and changed its name to "Meier & Frank", a May property with eight stores in Oregon and Washington. Subsequently May Department Stores completed a merger with Federated Department Stores and the Meier & Frank brand ZCMI stores have become Macy's stores, effective late 2006.

In 1881, Joseph Lowthian Hudson opened a small men's clothing store in Detroit. After 10 years he had 8 stores in the midwest and was the most profitable clothing retailer in the country. In 1893 he began construction of the immense department store at Gratiot and Farmer streets in Detroit. The 25-story tower was added in 1928, and a 12-story addition in 1946, giving the entire complex 49 acres (200,000 m²) of floor space. In 1954 the company became a suburban shopping center pioneer when it built Northland 13 miles (21 km) northwest of Detroit. In 1969 it merged with the Dayton Corporation to create Dayton-Hudson headquartered in Minneapolis. George Dayton had founded his Dayton's Daylight store in Minneapolis in 1902 and the AMC cooperative in 1912, built the Southdale Shopping Center in 1956, and started the Target discount store chain in 1962. The new corporation closed the flagship Hudson department store in downtown Detroit in 1983, but expanded its other retail operations. It acquired Mervyn's in 1978, Marshall Field's in 1990, and renamed itself the Target Corporation in 2000.

By 1890 a new world of retailing had been created as department stores had a clear market position as universal providers. General stores eventually became department stores as small towns became cities. The most prominent department stores emerged from small shops. The department store created several of North America's first large businesses. The department store is also largely responsible for the standard store design seen today, because of its size it required new building materials, glass technology and new heating, amongst other architectural innovations. The store layouts made shopping easier for consumers regardless of their social or economic background. The department store also offered new customer services never before seen such as restaurants, restrooms, reading rooms, home delivery, wrapping services, store hours, bridal registries, new types of merchandise displays and so forth.

Some department stores leased space to individual merchants, similar to the changes in late 17th-century London, but by 1900 the smaller merchants were purchased or eventually replaced by the larger companies. In this way they were very similar to our modern malls, where the property owner has no direct interest in the actual department store itself, other than to collect rent and provide utilities. Today only the most specialized departments are leased out, such as photography, photo finishing, automotive services or financial services. However, today this is rare, as most departments--even a store's restaurant--is usually run by the store itself.

Before the 1950s, the department store held an eminent place in both Canada and Australia, during both the Great Depression and World War II. Since then, they have suffered from strong competition from specialist stores. Most recently the competition
has intensified with the advent of larger-scale superstores (Jones et al. 1994; Merrilees and Miller 1997). Competition was not the only reason for the department stores' weakening strength; the changing structure of cities also affected them. The compact and centralized 19th century city with its mass transit lines converging on the downtown was a perfect environment for department store growth. But as residents moved out of the downtown areas to the suburbs, the large, downtown department stores became inconvenient and lost business to the newer suburban shopping malls.

3.2.3 TYPES OF DEPARTMENT STORES AND COMPARISONS

Upscale Department Store

Characteristics of a typical upscale department store may include:

- Sale of brand name perfumes and beauty supplies, like Burberry, Calvin Klein or M•A•C at the main entrance, with specialists in cosmetics there to assist customers with applying and selecting makeup.
- General sale of name brand clothes above an average price level, such as Dior, Chanel, Versace, Lacoste, etc.
- When items are discounted, the price resembles that of an average priced item at a lower scale department store.
- Sale of small household appliances like blenders, or small electronic items such as portable radios.
- Specialized services or subset businesses such as personal shopping assistance, salons, restaurants, and/or travel agencies.

Some upscale department stores that operate in the United States include national chains like Barneys New York, Bloomingdale's, Lord & Taylor, Neiman Marcus, Nordstrom, and Saks Fifth Avenue, as well as regional retailers such as Bergdorf Goodman, and Von Maur. In the United Kingdom, department stores making up the high-end include Harvey Nichols, Harrods and Fortnum and Mason. In Indonesia, the most upscale department stores includes Sogo and Seibu from Japan, Debenhams and Harvey Nichols from United Kingdom (all managed by PT. Mitra Adiperkasa Tbk.), and Parisian from Indonesia (managed by Lippo Group).

Mid-Scale Department Stores

Depending upon location, Belk, Dillard's and Macy's, are sometimes considered upscale department stores, but the chains overall are often viewed as being situated somewhere between midscale and higher midscale.

Mid-Range Department Store

Characteristics of a mid-range department store may include:
• Sale of cosmetics.
• Sale of some brand names, with greater emphasis on private label brands.
• Sale of accessories.
• Sale of some small household appliances.
• Sale of furniture in larger locations.

Comparison to Upscale Department Store

• Sale of cosmetics but generally not brand name. Fragrances and beauty supplies may be placed further into the interior of the store, without cosmetic specialists at the counters.
• Greater proportion of moderately-priced brand names.
• Accessories and purses aren't upscale brand names, with greater proportion of lesser-known or private label branded items.

Mid-range department stores that operate in the United States include national chains JCPenney and Kohl's. Regional chains such as Gottschalks and Mervyns in the western United States, and The Bon-Ton and associated stores in the northern part of the country are also among this grouping of stores.

As noted in details of upscale department stores, Macy's, Dillard's and Belk vary in price points and relative consideration as upscale or mid-range versus local competitors, depending upon location. Some larger locations in affluent areas often carry significant selections of brand name products including brand name accessories and fragrances kept in glass cases, and usually have cosmetic specialists in the beauty department. Brands at above-average price points, if offered at all, are generally limited and full product lines of such brands are not typically available. Smaller and more remote store locations — often, the legacy of acquisitions of smaller retailers — may concentrate squarely on moderately-priced merchandise. California-based Gottschalks mirrors these chains, though in a specific region with little presence in major metropolitan areas. Macy's are typically the anchors of upscale malls and are situated among other high-end department stores such as Tysons Galleria or The Domain in Austin. Nationally known JCPenney has incorporated elements of upscale stores such as salons and custom home decorating services, along with offering optical shops, portrait photography studios and designer-produced private labels.

The national chain Sears is also in this category, but often is considered a lower grade mid-range department store due to marketing a higher proportion of private label and lesser-known label goods in apparel and housewares segments. Sears differs from most mid-range department store chains in its common inclusion of departments for hardware, garden and outdoor equipment, automotive service, and large appliances and electronics — product segments more typical of discount or so-called "big box" retailers.
Discount Department Store/Super-Store

- Sells cosmetics, generally not name brand.
- Generally doesn't sell name brands.
- Sells accessories, generally not name brand.
- Sells small household appliances.
- Sells toys, electronics and video games.
- Sells household necessities.
- The "super-store" variant usually sells food products and has a "one stop shop" vibe.

Comparison to Mid-Range Department Stores

- Sells fewer major brand names.
- Offers a wider variety of products.
- More likely to anchor a power centre than an indoor shopping mall.

Some discount department stores that operate in the United States include: ShopKo, Kmart and Wal-Mart. Although ShopKo and Kmart are more upscale than Wal-Mart; further, Wal-Mart could be considered a "super discount department store". Target is also in this category but may be considered a more upscale Discount Department Store because it puts a greater emphasis on current fashion and on special merchandise lines from well-known designers such as Isaac Mizrahi and Thomas O'Brien.

Off-Price Retailer

- Most products are name-branded.
- Products may be over-runs, seconds, or last season's stock liquidated from department stores.
- Product mix typically emphasizes women's clothing and may include men's clothing, children's clothing, shoes, accessories, perfume, toys, housewares, or packaged gourmet food.
- Stores are most frequently located in power centres but may also appear in shopping malls.

Off-price retail department stores include T.J. Maxx, Factory 2-U, Century 21, Gabriel Brothers, Ross Dress For Less, Marshalls, and Burlington Coat Factory. TJX, the parent company of Marshall's, and TJ Maxx, has been experimenting with Home Goods superstores that carry a larger range and variety of housewares, including furniture.

3.2.4 OVERVIEW WITH CASE STUDIES
Department stores are retailers that carry a broad variety and deep assortment, offer customer services, and organize their stores into distinctly separate departments for displaying merchandise. The largest department store chains in the United States are Macy's (part of Federated Department Stores), Sears, JC Penney, and Kohl's.
Traditionally, department stores attracted customers by offering a pleasing ambience, attentive service, and a wide variety of merchandise under one roof. They sold both soft goods (apparel and bedding) and hard goods (appliances, furniture, and consumer electronics). But now most department stores focus almost exclusively on soft goods. The major departments are women's, men's, and children's apparel and accessories; home furnishings; cosmetics; and kitchenware and small appliances. Each department within the store has a specific selling space allocated to it, a POS terminal to transact and record sales, and salespeople to assist customers. The department store often resembles a collection of specialty shops.

Department store chains can be categorized into three tiers. The first tier includes upscale, high fashion chains with exclusive designer merchandise and excellent customer service, such as Neiman Marcus, Bloomingdale's (part of Federated Department Stores), and Saks Fifth Avenue (part of Saks). Macy's (also part of Federated Department Stores) is in the second tier of upscale traditional department stores; in which retailers sell more modestly priced merchandise with less customer service. The value-oriented third tier-Sears, JCPenney, and Kohl's-eaters to more price-conscious consumers. The retail chains in the first tier have established a clearly differentiated position and are producing strong financial results, while the value-oriented tier is facing significant competitive challenges from discount stores, particularly Target. Retailing View 2.3 describes the innovative strategy of Kohl's, a successful value-oriented department store chain.

Department stores still account for some of retailing’s traditions-multistoried downtown stores, special events and parades, Santa Claus lands, holiday decorations-and offer designer brands that are not available from other retailers. But many consumers are questioning the benefits and costs of shopping at department stores. Department stores are not as convenient as discount stores because they are located in large regional malls rather than local neighborhoods. Customer service has diminished due to cutbacks in labor costs. In addition, department stores have not been as successful as discount stores and food retailers in reducing costs by working with their vendors to establish just-in-time inventory systems, so prices are relatively high.

The performance of department stores is linked to the strengths of the brands they sell, such as Liz Claibourne, Tommy Hilfiger, Ralph Lauren, and Estee Lauder. In light of the decline in department store patronage, many of these brands, previously sold exclusively through department stores, are pursuing other growth opportunities. For example, Estee Lauder, a cosmetic brand sold at first-tier department stores, has developed an exclusive private label cosmetics line for Kohl's. Levi Strauss created the Levi Strauss Signature line for Wal-Mart and other discount stores.

To deal with their eroding market share, department stores are (1) attempting to increase the amount of exclusive merchandise they sell, (2) undertaking marketing campaigns to develop strong images for their stores and brands, and (3) building better relationships with their key customers. To differentiate their merchandise offering and strengthen their image, department stores are aggressively seeking exclusive arrangements with nationally recognized brands. For example, Macy's negotiated with
RETAILING VIEW 2.3
Kohl's-A Rapidly Growing Department Store Chain

Max Kohl and his family (Herbert Kohl, the Senator from Wisconsin, is a family member) pioneered the supermarket concept in Wisconsin, opening their first store in 1942. In 1962, the family started a chain of discount stores also named Kohl's. The Kohl’s sold their retail business to British American Tobacco (BATUS) in 1972, which then closed the supermarkets and eventually sold the discount store chain in 1986 to its executives in a leveraged buyout. These executives developed a novel concept, combining a department and a discount store that has produced one of the fastest growing retail firms in the United States.

Kohl's formula for success is offering shopping convenience for time-pressured soccer moms interested in buying national Kohl's department stores place the checkout counters in a convenient brand apparel and soft home merchandise at centralized location near the store entrances. reasonable prices. Some of the national brands it sells are Sag Harbor women's wear, Dockers and Arrow men's wear, Healthier and Oshkosh children's clothing, Kitchen Aid appliances, and Nike and Sketchers footwear. In addition, it has exclusive sub-brand arrangements with some national brands sold at second-tier department stores such as Estee Lauder cosmetics and Laura Ashley home textile and bedroom accessories.

But the key to Kohl's success is convenience. Its stores, located in suburban neighborhood centers, are easy to shop. The stores are smaller (80,000 square feet) than traditional, mall-based department stores and are on one floor. The aisles and fixture spacing are wider than those of the typical department store so that customers pushing a shopping cart or baby stroller can easily navigate the store. Rather than having POS terminals in each department, the stores have centralized cash wraps (checkout stations) near the store entrances so that customers can select merchandise from different areas of the store and pay for it all at once when they are ready to leave.

Since Kohl's does not carry designer brands that require "store within a store" displays, it groups different brands by the type of Item rather than brand. Kohl's avoids a cluttered look by positioning display racks in amphitheater style, making all the merchandise visible. Colors are displayed from light to dark, a pattern that is most appealing to the eye. And unlike most stores, which try to straighten up merchandise all day, Kohl's keeps presentations sharp with a daily 2:00 p.m. "recovery period," when everyone in the store—from secretaries to store managers—is called upon to straighten up displays. Night crews do something similar. The total effect is to allow salesclerks to concentrate solely on customers.

From 76 stores in 1992, Kohl's has grown to over 600 stores in 45 states. Its format has proved to be so attractive to shoppers that JCPenney and Sears are opening off-the-mall stores with shopping carts and centralized cash wraps.
Tommy Hilfiger to launch its new H line exclusively, with supporting advertising featuring Iman and David Bowie. JCPenney became the exclusive retailer for Bisou Bisou, a contemporary apparel brand that was previously sold through better specialty stores and upscale department stores.26

In addition, department stores are placing more emphasis on developing their own private label brands. For example, Macy's has been very successful in developing a strong image for its private label brands, such as INC (women's clothing) and Tools of the Trade (housewares). Macy's intends to increase the percentage of exclusive merchandise it offers, from the present 20 percent to over 50 percent.

In recent years, department stores' discount sales events have increased dramatically to the point that consumers have been trained to wait for items to be placed on sale rather than buy them at full price. Department stores are shifting their marketing activities from promotional sales to brand-building activities involving television advertising and specialty publications such as Saks Fifth Avenue's S magazine. Finally, department stores are using technology and information systems to improve customer service in a cost-effective manner. Wireless devices used on the selling floor provide sales associates with customer and merchandise information. Department stores are collecting and analyzing information to identify their best customers and target promotions to these customers. In Chapter 11, we discuss these customer relationship management (CRM) programs in more detail.

3.3 HYPERMARKET

3.3.1 DEFINITION

In commerce, a hypermarket is a superstore which combines a supermarket and a department store. The result is a very large retail facility which carries an enormous range of products under one roof, including full lines of groceries and general merchandise. When they are planned, constructed, and executed correctly, a consumer can ideally satisfy all of their routine weekly shopping needs in one trip.

3.3.2 OVERVIEW

Hypermarkets, like other big-box stores, typically have business models focusing on high-volume, low-margin sales. Because of their large footprints — a typical Wal-Mart Supercenter covers 14,000 m² (150,000 square feet), a typical Carrefour 19,500 m² (210,000 square feet) — and the need for many shoppers to carry large quantities of goods, many hypermarkets choose suburban or out-of-town locations that are easily accessible by automobile.
3.3.3 HISTORY

The format was pioneered by Carrefour upon opening its first such store in 1963 at Sainte-Geneviève-des-Bois, France. In the Americas, the Oshawa group introduced the first hypermarket in North America near Montreal in 1973.

The first hypermarket was introduced in the United States in 1987. In the late 1980s and early 1990s, the three major discount store chains in the United States—Wal-Mart, Kmart and Target—started developing discount stores in the hypermarket format. Wal-Mart introduced Hypermart USA in 1987 and later Wal-Mart Supercenter, and Kmart developed Super Kmart. In 1991, Dayton-Hudson Corporation (now Target Corporation) expanded its Target Greatland discount store chain into Columbus, Ohio, where it learned that its general merchandise superstores were unable to compete against the Meijer hypermarket chain. In response, Dayton-Hudson entered the hypermarket format in 1995 by opening its first SuperTarget store in Omaha, Nebraska.

3.3.4 SUCCESS

After the successes of super- and hyper-markets and amid fears that smaller stores would be forced out of business, France enacted laws that made it more difficult to build hypermarkets and also restricted the amount of economic leverage that hypermarket chains can impose upon their suppliers (the Loi Galland). Large retailers for the most part work around the law by using loopholes. As of 2004, the Loi Galland has become increasingly controversial and there have been calls to amend it.

In Japan, hypermarkets may be found in urban areas as well as less populated areas. The Japanese government encourages hypermarket installations, as mutual investment by financial stocks are a common way to run hypermarkets. Japanese hypermarkets may contain restaurants, Manga (Japanese comic) stands, Internet cafes, typical department store merchandise, a full range of groceries, beauty salons and other services all inside the same store. In France, hypermarkets are generally situated in shopping centers (French: centre commercial) outside of cities. They are surrounded by extensive parking lots, and generally by other specialized large stores (for instance, selling clothing, sports gear, automotive items, etc.).

In India, Reliance Retail and Spencers Hyper are the major hypermarket chains, though the recent opening up of the retail sector to foreign investors is likely to increase the numbers exponentially. African retailer Shoprite runs a hypermarket in Mumbai

Another category of stores sometimes included in the hypermarket category is the membership-based wholesale warehouse clubs that are popular in North America, pioneered by Fedco and today including Sam's Club, a division of Wal-Mart; Costco, in which Carrefour has a small ownership percentage; and BJ's Wholesale Club on the East Coast. In Europe, Makro leads the market. However, warehouse clubs differ from what is
normally considered a hypermarket because of their sparse interior decor, restrictive membership, and broad-not-deep selections that maximize inventory turnover.

Liberalization of the economy in the nineties and the entry of large players in the retail business have brought the retail industry into spotlight. Big players and national retail chains are changing the rules of the game. After supermarkets, departmental stores and convenience stores, Indian retail has seen concept of hypermarkets coming of age. The hypermarkets are not new to the western countries. Players like Wal-mart, Metro have established hypermarkets in many countries. In India, hypermarket concept is in nascent stage, retailers like Pantaloons and RPG have started hypermarket operations and they are having plans to expand aggressively to all the regions of India. A large number of international retailers have evinced interest in India, despite the absence of favorable government policy for foreign players.

India has one of the largest unorganized retail markets in the world. More than 96% retailers function in less than 500Sq.Ft of area. India's per capita retailing space is thus the lowest in the world. Given the size, and the geographical, cultural and socio-economic diversity of India, there is no role model for Indian suppliers and retailers to adapt or expand in the Indian context. The industry is witnessing the development of region-specific formats. With organized retail penetrating into B class towns, larger discount formats, popularly known as hypermarkets, are now emerging as major competitors for both unorganized and organized retailers. Penetration of organized retail into the lower income groups and increasing consumer demand for value-for-money has improved the prospects of these formats. It offers customers a wide array of low-priced products ranging over categories like groceries, processed food, fresh food, apparel and consumer durables. On an average in India it is spread over 50,000 sq. ft. There are more than 25,000 SKUs (Stock Keeping Units). The margins and discount rates on various product categories have been discussed. In case of Hypermarket the largest part of their operating cost goes towards rentals. High costs arises from labor, social security to employees, high quality real estate, bigger premises, comfort facilities such as air-conditioning, back-up power supply, taxes etc. Degree of personal involvement and information dependency are the two crucial factors which affect the purchasing behavior of the customer.

Recent years have witnessed a sizeable growth in organized retail space in the major Indian cities. Real estate is the most important parameter deciding the profitability of any store. Real Estate in terms of location as well as the cost associated with it will affect the footfalls and the finances of the company. Major development happenings in the area of retail space in India are hypermarkets and malls. India is witnessing an exponential growth in the space occupied by organized retailers. The major places where these malls are coming up are Mumbai, Delhi, Bangalore and Pune. Indian retail industry is still a "protected industry" from foreign direct investment (FDI). Though FDI can help generate employment in this sector, it is likely to pose stiff competition for existing small businesses. Unlike the country's FDI investment objective of technology transfer and export promotion in 1980s, today's infusion of capital can bring in issues like size of investment, percentage of stake or ownerships in the company and takeovers of domestic companies by foreign giants.
The report covers *Indian hypermarket structure* and *key trends* in the industry. Analysis of *product categories*, *average billing size*, *costing*, and *consumer behavior* are extensively covered with *Michael porter’s 5-forces analysis*, *SWOT analysis* and analysis of *value drivers* for hypermarkets. The details and business dynamics of major hypermarket retailers in India i.e., Giant and Big Bazaar have also been discussed in this report.

3.4 FRANCHISE ORGANIZATION

3.4.1 INTRODUCTION
Franchising is a contractual agreement between a franchisor and a franchisee that allows the franchisee to operate a retail outlet using a name and format developed and supported by the franchisor. Approximately one-third of all U.S. Retail sales are made by franchisees. Exhibit 2-12 lists some retailers governed by franchise agreements.

**Food Retailers**
- Haldiram
- Baskin Robins
- Domino’s Pizza
- Subway India
- Vadilal
- KFC
- Ruby Tuesday

**Merchandise Retailers**
- Good Things
- Maspar
- D’dma
- The Ceat Shoppe
- Koutons
- Reynolds
- Ebony
- Lilliput
- M & B Footwear

**Services Retailers**
- Air Hostess Academy
- Lakme Beauty Salon
- Shahnaz Herbal
- Wind Shleld Experts
- Aptech Computer Education
- VLCC Healthcare
- Reliance world
- Sharekhan
- Ferns ‘N’ Petals
- Big Flix
- Reliance AutoZone
- ADLABS
In a franchise contract, the franchisee pays a lump sum plus a royalty on all sales for the right to operate a store in a specific location. The franchisee also agrees to operate the outlet in accordance with procedures prescribed by the franchisor. The franchisor provides assistance in locating and building the store, developing the products or services sold, training managers, and advertising. To maintain each franchisee’s reputation, the franchisor also makes sure that all outlets the same quality of services and products.

The franchise ownership format attempts to combine the advantages of owner managed businesses with the efficiencies of centralized decision making of chain store operations. Franchisees are motivated to make their store successful because they receive the profits (after the royalty is paid). The franchisor is motivated to develop new products and systems and to promote the franchise because it receives a royalty on all sales. Advertising, product development, and system development are efficiently done by the franchisor, with costs shared by all franchisees.

3.5 MERCHANDIZING

3.5.1 DEFINITION

Merchandising refers to the methods, practices and operations conducted to promote and sustain certain categories of commercial activity. The term is understood to have different specific meanings depending on the context.[1]

3.5.2 LICENSING

In marketing, one of the definitions of merchandising is the practice in which the brand or image from one product or service is used to sell another. Trademarked brand names, logos, or character images are licensed to manufacturers of products such as toys or clothing, which then make items in or emblazoned with the image of the license, hoping they'll sell better than the same item with no such image.[2]

3.5.3 MERCHANDIZING FOR CHILDREN

Merchandising for children is most prominently seen in connection with films, usually those in current releases and with television shows oriented towards children.

Merchandising, especially in connection with child-oriented films and TV shows, often consists of toys made in the likeness of the show's characters (action figures) or items which they use. However, sometimes it can be the other way around, with the show written to include the toys, as advertising for the merchandise. The first major example of
this was the TV show "He-man and the Masters of the Universe," in the early 1980s, but this practice has been common in children's broadcasting ever since.

Sometimes merchandising from a television show can grow far beyond the original show, even lasting decades after the show has largely disappeared from popularity. In other cases, large amounts of merchandise can be generated from a pitifully small amount of source material (Mashimaro).

3.5.4 MERCHANDIZING FOR ADULTS

Example of professional sports merchandising - A Boston Celtics cap manufactured by Adidas

The most common adult-oriented merchandising is that related to professional sports teams (and their players).

A smaller niche in merchandising is the marketing of more adult-oriented products in connection with similarly adult-oriented films and TV shows. This is common especially with the science fiction and horror genres. (Examples: Star Trek, McFarlane Toys)

Occasionally shows which were intended more for children find a following among adults, and you can see a bit of a crossover, with products from that show oriented towards both adults and children. (Gundam model kits)

Sometimes a brand of non-media products can achieve enough recognition and respect that simply putting its name or images on a completely unrelated item can sell that item. (An example would be Harley-Davidson branded clothing.)

3.5.5 PROMOTIONAL MERCHANDISING

Merchandising, as commonly used in marketing, means maximizing merchandise sales using product design, selection, packaging, pricing, and display that stimulates consumers to spend more. This includes disciplines in pricing and discounting, physical presentation of products and displays, and the decisions about which products should be presented to which customers at what time.

This annual cycle of merchandising differs between countries and even within them, particularly relating to cultural customs like holidays, and seasonal issues like climate and local sporting and recreation.

In the United States for example, the basic retail cycle begins in early January with merchandise for Valentine's Day, which is not until mid-February. Following this, Easter is the major holiday, while springtime clothing and garden-related merchandise is already arriving at stores, often as early as mid-winter. Mothers Day and Fathers Day are next, with graduation gifts (typically small consumer electronics like digital cameras) often being marketed as "dads and grads" in June (though most semesters end in May).
Summer merchandise is next, including patriotic-themed products with the American flag, out by Memorial Day in preparation for Independence Day (with Flag Day in between). By July, back-to-school is on the shelves and autumn merchandise is already arriving, and at some arts and crafts stores, Christmas decorations. By September, the summer merchandise is on final closeout and overstock of school supplies is marked-down some as well, and Halloween (and often even more of the Christmas) merchandise is appearing. As the Halloween decorations and costumes dwindle in October, Christmas is already being pushed on consumers, and by the day afterward retailers are going full-force with advertising, although the "official" season does not start until the day after Thanksgiving. Christmas clearance sales now begin even before Christmas at most retailers, and continue on to as little as New Year's Day or as long as February.

Merchandising also varies within retail chains, where stores in places like Denver, Minneapolis, or Buffalo might carry snow blowers, while stores in Florida and southern California might instead carry beach clothing and barbecue grills all year. Coastal-area stores might carry water skiing equipment, while ones near mountain ranges would likely have snow skiing and snowboarding gear if there are ski areas nearby.

3.5.6 TRADING INDUSTRY

In Eastern Europe, particularly in Russia, the term “merchandising” is commonly used within the trading industry and denotes all marketing and sales stimulation activities around PoS (point of sale): design, creation, promotion, care and training of the sales staff. Basically merchandiser is the one who is continuously involve in business promotion by buying and selling of goods.

RETAIL SUPPLY CHAIN

Merchandising at a Walgreens in Chicago

In the supply chain, merchandising is the practice of making products in retail outlets available to consumers, primarily by stocking shelves and displays. While this used to be done exclusively by the stores' employees, many retailers have found substantial savings
in requiring it to be done by the manufacturer, vendor, or wholesaler that provides the products to the retail store. In the United Kingdom there are a number of organizations that supply merchandising services to support retail outlets with general stock replenishment and merchandising support in new stores. By doing this, retail stores have been able to substantially reduce the number of employees needed to run the store. While stocking shelves and building displays is often done when the product is delivered, it is increasingly a separate activity from delivering the product. In grocery stores, for example, almost all products delivered directly to the store from a manufacturer or wholesaler will be stocked by the manufacturer's/wholesaler's employee who is a full time merchandiser. Product categories where this is common are Beverage (all types, alcoholic and non-alcoholic), packaged baked goods (bread and pastries), magazines and books, and health and beauty products. For major food manufacturers in the beverage and baked goods industries, their merchandisers are often the single largest employee group within the company. For nationwide branded goods manufacturers such as The Coca-Cola Company and PepsiCo, their respective merchandiser work forces number in the thousands.

3.5.7 VISUAL MERCHANDISING AND RETAIL COMMUNICATIONS

Visual Merchandising (VM) is the art of presentation, which puts the merchandise in focus and in perspective too. It educates the customers, creates desire and finally augments the selling process. This is a nascent area of the Indian retail industry, therefore a professional program on Visual Merchandising will go a long way in addressing this gap. The success of the program will be reflected in the better presentations, displays, indoor and outdoor communication about the stores. This course would be a niche specialization in the booming retail sector. Visual Merchandising achieves the following:

• Educates the customers about the products and services offered creatively and effectively.

• Enables a successful selling process, from browsing to buying.

• Establishes a creative medium to present merchandise in a lifelike 3-D environment, thus creating a strong impact and recall value.

• Sets the context of the merchandise.

• Establishes the linkage between fashions, product design and marketing by keeping the focus on the product.

• Draws the attention of the customers and help them match their needs with the visually merchandised product.
3.5.8 VISUAL MERCHANDISING IN INDIA

As the concept of large retail stores gains ground in India, the practice and concept of VM is likely to grow exponentially. In the western countries VM receives highest priority in commercial planning of a product. As seasons change, the merchandise collections / planograms too change in a retail store. When such changes take place the store too undergoes a transformation in decor and visual presentation to appeal to the consumers while announcing new arrivals in merchandise collection. This phenomenon of transformation of visual presentations and displays of merchandise accompanied by relevant thematic props, is still very new in India. VM and Displays have a storyboard effect communicating innovatively to the customer besides being a ‘Silent salesman for a retail store’.
3.5.9 PLANNING, MERCHANDISING AND DEMAND INTELLIGENCE

A huge proliferation of Stock Keeping Units (SKUs) for the consumer products has led to innumerable choices for the end customer. This has led to complication of demand and supply management, erosion of brand loyalty and increasing pressure on margins. For these reasons, ability to forecast demand accurately and having the right category mix is an important focus area for retailers.

At HCL, we work with leading retailers and offer them solutions related to improvements
in merchandising operations. Managing merchandising efficiently leads to less stock outs and hence improved profitability. We have fair degree of maturity in servicing our customers in this area like advanced retail planning, retail life cycle price management, financials and HR.

3.5.10 DEMAND PLANNING AND FORECASTING

Customers have become much more demanding in recent years, forcing retailers both large and small - to operate more quickly and efficiently. Thus Customer Demand Planning is one of the key areas of operations for a retailer's business. There are immense benefits in managing the demand well, prime amongst them are:

- **Single Forecast** – provides all departments with a common forecast to drive the retail enterprise.
- **Correct Inventory** – ensures proper stock levels during regular price situations and promotions to avoid lost sales due to out of stock situations. It also reduces over-stocks with correct forecasting on performance of a product or promotion.
- **Improved Efficiency** – streamlines the forecasting process, highlights potential problems and allows processing of large amounts of data quickly.

At HCL, we have worked closely with leading retailers in understanding their customers, sales patterns, products they sell and promotions they run. We possess rich experience in advanced retail planning, customer analytics, and promotions planning to name a few. Our solutions and services help to accurately forecast sales using advanced algorithms on the sales data, past trends and industry patterns.

3.5.11 MERCHANDISE PLANNING AND OPERATION

Merchandise planning is one of the biggest challenges that any multi store retailer faces. Getting the right mix of product, which is store specific across your organization, is a combination of customer insight, allocation, and assortment techniques.

Our domain experts understand this and help clients in making the right forecast by SKU and ensuring that the consumer finds the right product, at the right place, right time and right price. Working closely with our technology partners, we guide our clients through the entire merchandise planning lifecycle in a systematic and integrated way. We support end-to-end merchandising functions including optimizing merchandizing assortments, allocating products, providing planning and analytics capabilities and lastly, providing solutions to maximize value from promotions and price management.

The benefits of Merchandise Planning accrued by our clients include reduced unplanned discounts and promotions, properly utilized floor space, fewer store transfers, and increased turns throughout the chain helping the bottom line immensely.
3.6 CONGLomerates

A conglomerate is a large company that consists of seemingly unrelated business sections. The term may also refer to a multi-industry company.

3.6.1 History

The Dutch East India Company be considered to be one of the earliest conglomerate groups after the English East India Company (the first); originally a trade enterprise established to ship goods from the Far East to the Dutch Republic, the East India Company grew into a powerful economic entity embracing economic ventures focused on commerce and manufacturing.

The end of the First World War caused a brief economic crisis in Weimar Germany, permitting entrepreneurs to buy up varied businesses at rock-bottom prices. The most successful, Hugo Stinnes, established the most powerful private economic conglomerate in 1920s Europe - Stinnes Enterprises - which embraced sectors as diverse as manufacturing, mining, shipbuilding, hotels, newspapers, and an assortment of other economic enterprises.

Conglomerates were popular in the 1960s due to a combination of low interest rate(s) and a repeating bear/bull market, which allowed the conglomerates to buy companies in leveraged buyouts, sometimes at temporarily deflated values. Famous examples of the 1960s conglomerates include Ling-Temco-Vought, ITT Corporation, Litton Industries, Textron, Teledyne, and Gulf and Western Industries. As long as the target company had profits greater than the interest on the loans, the overall return on investment (ROI) of the conglomerate appeared to grow.

For many years this was enough to make the company's stock price rise, as companies were often valued largely on their ROI. The aggressive nature of the conglomerates themselves was enough to make many investors, who saw a "powerful" and seemingly unstoppable force in business, buy their stock. High stock prices allowed them to raise more loans, based on the value of their stock, and thereby buy even more companies. This led to a chain reaction, which allowed them to grow very rapidly.

However, all of this growth was somewhat illusory. As soon as interest rates started to rise in order to offset inflation, the profits of the conglomerates fell. Investors also noticed that the companies inside the conglomerate were growing no faster than they had before they were purchased, whereas the rationale for buying a company was often that "synergies" would lead to more efficiency. By the late 1960s they were frowned on by the market, and a major sell off of their shares ensued. In order to keep the companies going, many conglomerates were forced to shed the industries they had purchased.
recently, and by the mid-1970s most had been reduced to shells.\footnote{citation needed} The conglomerate fad was subsequently replaced by newer ideas like focusing on a company's core competency.

Cash flush during the 1980s, General Electric also moved into financing and financial services, which in 2005 accounted for about 45% of the company's net earnings. GE also owns a majority of NBC Universal, which owns the NBC television network and several cable networks. In some ways GE is the opposite of the "typical" 1960s conglomerate: the company was not highly leveraged, and when interest rates went up they were able to turn this to their advantage as it was often less expensive to lease from GE than buy new equipment using loans. United Technologies has also proven to be an extremely successful example of a conglomerate.

Another example of a successful conglomerate is Berkshire Hathaway, which used its insurance surplus to invest in a variety of manufacturing and service businesses.

The best known British conglomerate was Hanson plc. It followed a rather different timescale than the U.S. examples mentioned above, as it was founded in 1964 and ceased to be a conglomerate when it split itself into four separate listed companies between 1995 and 1997.

In Japan, a different model of conglomerate, the keiretsu, evolved. Whereas the Western model of conglomerate consists of a single corporation with multiple subsidiaries controlled by that corporation, the companies in a keiretsu are linked by interlocking shareholdings and a central role of a bank. Mitsubishi is one of Japan's best known keiretsu, reaching from automobile manufacturing to the production of electronics such as televisions.

In South Korea, Chaebol is a type of conglomerate owned and operated by a family. Chaebol is also inheritable as most of current presidents of Chaebol succeed their fathers or grandfathers. Some of the well-known Korean Chaebols are Samsung, LG and Hyundai Kia Automotive Group.

The era of Licence Raj (1947-1990) in India created some of Asia's largest conglomerates such as the Tata Group, Kirloskar Group, Reliance Industries and the Aditya Birla Group.

Conglomerates also exist in Turkey. Koç Holding and Sabancı Holding are Turkey's two largest conglomerates.

### 3.6.2 Potential Advantages

To modern business analysts, the best argument for conglomerate organizational form is that it may allow capital to be allocated in a more efficient way. For example, a hypothetical conglomerate consists of a candy store and an internet website. Suppose the candy store has high cash flow, but very few profitable investment opportunities. The website has low cash flow, but lots of good investment projects. By combining the
businesses together, the cash from the candy store can be used to make profitable investments that would otherwise not be made in the web site. The main question associated with this strategy is why this improves upon a market-based allocation of capital.\[citation needed\] That is, if the entities were standalone, then presumably the investors in the candy store could receive dividends, and then reinvest those dividends in the startup. If this market-based mechanism works well, then all profitable internet startup investments can be made without the two entities being organized under common ownership. Research suggests that financial markets may not always operate efficiently due to the presence of transaction costs and asymmetric information. If this problem is severe, then the common ownership of the assets might yield a more efficient allocation of capital.\[1\]

3.6.3 POTENTIAL DISADVANTAGES

Lack of focus and inability to manage unrelated businesses equally well are the reasons to criticize conglomerates. As a result, conglomerates' stocks are usually penalized by the market. This phenomenon is called conglomerate discount.

3.6.4 MEDIA CONGLomerates

In her 1999 book No Logo, Naomi Klein provides several examples of mergers and acquisitions between media companies designed to create conglomerates for the purposes of creating synergies between them:

- Time Warner (now merged with AOL) have a series of tenuously linked business including internet access, internet content provision and music, film and traditional publishing. Their diverse portfolio of assets allow cross-promotion and economies of scale. (However, Time Warner has since divested its music and book publishing interests, and there is growing pressure to spin off its Time Warner Cable and AOL units.)

- Clear Channel Communications, a quoted company, at one point owned a variety of TV and radio stations and billboard operations, together with a large number of concert venues, across the U.S. and a diverse portfolio of assets in the UK and other countries around the world. The concentration of bargaining power in this one entity allowed it to gain better deals for all of its business units. For example, the promise of playlisting (allegedly, sometimes, coupled with the threat of blacklisting) on its radio stations was used to secure better deals from artists performing in events organized by the entertainment division. These policies have been attacked as unfair and even monopolistic, but are a clear advantage of the conglomerate strategy. On December 21, 2005, Clear Channel completed the spin-off of Live Nation, and in 2007 the company spun off their television stations to other companies, some which Clear Channel holds a small interest in. Live Nation owns the events and concert venues previously owned by Clear Channel Communications.
A conglomerate is a large company that consists of diverse divisions; the term is almost always reserved for companies having otherwise unrelated businesses under a common corporate umbrella. Conglomerate companies tend to be large multinational corporations with operations in multiple regions of the world. Below is a list of the world's largest (by revenues) conglomerate companies.

3.6.5 THE WORLD'S LARGEST CONGLOMERATE COMPANIES

- 3M
- ABB
- Abertis
- Acciona
- Aditya Birla Group
- Africa Israel
- Aju Group
- Alstom
- Anglo American plc
- Anil Dhirubhai Ambani Group (ADAG)
- Areva
- ASDA
- Ayala Corporation
- BAE Systems
- Berkshire Hathaway
- Bombardier
- Bouygues
- Brookfield Asset Management
- Brunswick Corporation
- Bunge Limited
- Canwest Global Communications Corp
- Central Group
- Charoen Pokphand
- Chicago Bridge & Iron Company
- Cheung Kong Group
- CJ Group
- Daelim Group
- Danaher Corporation
- Dassault Group
- Doğan Holding
- Doosan Group
- Dover Corporation
• EADS
• EBX
• Embraer
• Emerson
• Eni
• Eugene Group
• Fiat Group
• Finmeccanica
• Fortis
• Fortune Brands
• Foster's Group
• General Electric
• General Motors
• Grupo Abril
• Grupo Carso
• GS Group
• Grupo Empresarial Antioqueño
• Hanwha
• Hanjin Group
• Hansol Group
• Hitachi Group
• Honeywell International
• Hutchison Whampoa
• Hyosung Group
• Hyundai Department Store Group
• Hyundai Heavy Industries
• Hyundai Kia Automotive Group
• ITT
• Impresa
• Isu Group
• JG Summit Holdings
• Johnson & Johnson
• Kirloskar Group
• Kiswel Group
• Koç Holding
• Kodak
• KT
• Kumho Asiana Group
• Lagardère Group
• Larsen & Toubro
• Leucadia National
• LG Group
• Lotte Group
• LVMH
• McDonalds
• Media Capital
- Media Prima Berhad
- Microsoft
- Mitsubishi
- Mitsui
- Motorola
- Mærsk
- News Corporation
- Nintendo
- Nokia
- Nong Shim Group
- Norsk Hydro
- Nuqul Group
- Odebrecht
- On-Media
- Orascom Group
- Panasonic
- Pentair
- Philips
- PPR
- Procter and Gamble
- Quebecor
- Raytheon
- Reliance Industries
- Rogers Communications
- Sabancı Holding
- Safran
- Samlip Group
- Samsung Group
- Seiyu Group
- Shinsegae Group
- Siemens AG
- Sime Darby
- SK Group
- SM Prime Holdings
- Sony
- SPX
- SsangYong Group
- STX Group
- Suez
- Sumitomo Group
- Taekwang Group
- Tata Group
- Teledyne Technologies
- Telmex
- Textron
- The Walt Disney Company
Conglomerates have always been a part of India’s corporate culture, though the trend has strengthened over the last few years. We draw parallels and differences between India’s recent “conglomerization” and two countries that have had a history of conglomerates—the US and South Korea.

The 1960s in the US were characterized by the unparalleled rise of conglomerates. In the world’s largest economy, conglomerates have been purely acquisitive in nature, perhaps best explained by managers’ compensation being tied to revenue growth. The most favourable argument for conglomerates was diversification, where in a recessionary environment business segments would complement each other, but more often than not, the purchased frog never turned into the promised prince. Over time, these elusive synergies became harder to realize.

In India, nowadays, it’s impossible to find a pure-play company that is content on focusing on just one business. In the Indian context, however, the “jack of all trades…” argument doesn’t quite hold true. Contrary to the US, conglomerization in India, in the general sense, is not acquisitive. Perhaps that speaks of a nascent economy with a dearth of specialist operators in niche areas. Since most of these businesses are built ground up, the expertise has ample opportunity to develop.

While the older conglomerates in India, such as Grasim Industries Ltd, or ITC Ltd were more along the lines of the diversification model, the newer effort has been more strategic in nature. It isn’t really intuitive, for example, for a retail company to develop an expertise in advertising, or logistics. However, Pantaloon Retail (India) Ltd has been opportunistic, yet strategic in having an advertising company utilizing its mall space and in developing logistics capability to deal with the unavailability of an off-the-rack solution. Not all newfangled managements will, of course, have real vision. Indiabulls group moving from a retail brokerage to microlending to real estate development doesn’t necessarily speak of a strategy, but more of easy access to capital.

The history of conglomerates, or chaebols, in South Korea traced a slightly different path compared with those in the US. The entrepreneurs that formed the eventual chaebols had strong political roots in the 1940s and 1950s. These businesses essentially partnered with the government to develop the state’s vision of converting Korea into an industrial power.
The chaebols received priority funding from the banking sector to further the state’s ambitions.

Turning back to the US, with every new acquisition, conglomerates got more unwieldy and it became apparent that there was no genie to be had from this lamp. This led to the era of divestitures, spin-offs—an “unlocking” of shareholder value. So after having been the patient bystander, while the management muddled with mergers and explained how the whole was worth more with the parts, the shareholder was now informed that the parts were worth more than the whole!

While the US managements traced and retraced their definitions of “sum of the parts”, this too is less of an issue in India. Since most businesses tend to be family-run, the entrepreneur invariably continues holding a sizable stake in the company, and generally the interests of the shareholders are aligned with those of the management. The enthusiasm, a tad overzealous, to monetize individual businesses was evident when Jaiprakash Associates Ltd listed a single hydro power plant as a public entity. Although investors don’t like illiquidity, or a lack of scale, monetizing an asset, albeit a good one, that generates a 20%+ROE (return on equity) at three times book value is definitely shareholder friendly (price to book valuation should be directly proportional to ROE).

Of course, not all conglomerates were unsuccessful—while General Electric Co. and Time Warner Inc. have muddled along, a word has to be put in for Berkshire Hathaway Inc. Maybe the secret sauce was in operating like a closed-end mutual fund with a portfolio of firms having independent managements with core expertise, instead of an all encompassing management that dilutes core competency.

In Korea, it is undeniable that the conglomerates have had an enormous role in its development, to the point that they were almost single-handedly responsible in turning Korea into an export powerhouse. However, easy capital accessibility meant high leverage in cyclical industries, leading to a history of solvency issues.

Not unlike the Koreans and the Americans, some herd mentality is just human nature. The stampede into structured retail in India even as commercial rentals were soaring, or the likes of Bajaj Auto Ltd, Exide Industries Ltd, or Max India Ltd originating life insurance, is hardly justifiable.

All in all, conglomerates in India will likely fare better, at least for the time being, than the US where execution was suspect, and in Korea where cyclicality and high leverage is still an issue. The entrepreneurial spirit of Indian businessmen and strategic expansions will mean that these conglomerates will flourish at least until the respective areas mature.

What Does Conglomerate Mean?

A corporation that is made up of a number of different, seemingly unrelated businesses. In a conglomerate, one company owns a controlling stake in a number of smaller companies, which conduct business separately. Each of a conglomerate's subsidiary businesses runs independently of the other business divisions, but the subsidiaries' management reports to senior management at the parent company.

The largest conglomerates diversify business risk by participating in a number of different markets, although some conglomerates elect to participate in a single industry -for example, mining.
INVESTOPEDIA EXPLAINS CONGLOMERATE...
These are the two philosophies guiding many conglomerates:

1. By participating in a number of unrelated businesses, the parent corporation is able to reduce costs by using fewer resources.

2. By diversifying business interests, the risks inherent in operating in a single market are mitigated.

History has shown that conglomerates can become so diversified and complicated that they are too difficult to manage efficiently. Since the height of their popularity in the period between the 1960s and the 1980s, many conglomerates have reduced the number of businesses under their management to a few choice subsidiaries through divestiture and spinoffs.

3.6.6 WILL THE CONGLOMERATES SURVIVE IN INDIA?
Unlike in more mature markets like the US and Europe, the Indian markets still have a number of conglomerates. If one goes by the examples from mature markets, it seems that Indian conglomerates too will divest their non core businesses to focus on core businesses going forward.

Risk diversification remains the key driver for conglomeratisation. Corporate performance is often dependent on economic cycles that impact different industries differently.

A downturn in one industry may offset positive returns in another. Having different businesses helps to mitigate this risk. At the same time, a conglomerate can also be very inefficient.

The energies and attention of even a very good management team, when split over numerous businesses will be less than effective, especially when there are no synergies between the various businesses in the portfolio. For example, the Wall Street Journal reported on May 9th that “Increasingly restive General Electric Co. shareholders, frustrated with six years of meager returns, are pressurizing Chairman Jeffrey Immelt to break up the conglomerate”

In India, there are several drivers that may force conglomerates to become more focused on a few core areas:

Rising competition: In India, conglomerates have been formed in a relatively competition free environment, aided by the Government’s trade and investment policy. With the Government relaxing its trade and investment policies, especially rules around FDI, a large number of established foreign operators will enter India. These potential competitors such as Walmart in Retail, or Singapore Airlines in Airline industry, have
deep industry experience, the human and capital resources and most importantly the management focus to be successful.

Focus: The single biggest differentiator behind successful companies and less successful ones is focus. Focus keeps them agile and open to opportunities and helps them make rapid changes to their strategy and operating model to remain on top of the market. A management team that is not focused on the core business is in danger of being blind sided. A blind sided management that is not able to react quickly to changes in the market place and adapt its strategy and operating model will less than optimize returns for the Shareholders.

Shareholder activism: As the capital markets in India mature, shareholders will become more active and will want to have a say in how Companies diversify. They will become more selective in choosing directors and find other ways of pressuring management. It is relatively easier to... prosper in a growing economy, especially when aided by favorable government policies that keep stiff competition out. As competition increases to stretch management focus by diversification, shareholders return will be impacted. They will then pressure management to re-think its diversification strategy.

Changing society: The society is fast changing from a mindset that did not question authority to one that is actively engaged in questioning it. The uprising over the quota issue, the agitation over the SEZ land acquisitions and the actions in the numerous criminal cases all provide ample evidence of this trend. The proliferation of 24/7 cable and news channels, the penetration of internet facilities in the rural villages and the rapidly increasing cell phone adoption will only hasten this process. As this change takes hold, shareholder activism will begin to spread and corporate managements will be held accountable for how these companies are being managed.

In conclusion, an alternative strategy for success in the growing Indian market is to focus in one industry or build a portfolio of businesses where synergies exist. This will help the management team to understand its customers better, build innovative products and services to keep the customer satisfied, execute flawlessly, build a formidable brand, operating model and acquire great talent.
TYPES OF RETAIL ORGANIZATION HIGH VOLUME

Structure
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4.2 Voluntary Chains

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4.1 INTRODUCTION

Entrepreneurs have many forms of retail business ownership available to them. Each business model has its own list of pros and cons. Choosing a type of retail business to start will depend on why you want to own a business, as well as your lifestyle, family, personality, basic skills and much more. Here are a few of the main types of retail ownership and the advantages, disadvantages, and support system of each. Independent Retailer is one who builds his/her business from the ground up. From the business planning stage to opening day, the independent retail owner does it all. He/she may hire consultants, staff and others to assist in the business endeavor. The opportunities are endless.

Over time, different types of retailers have emerged and prospered because they have attracted and maintained a significant customer base. The most basic characteristic of a retailer is its retail mix—the elements used by retailers to satisfy their customer’s needs. 4 elements of the retail mix that are particularly useful for classifying retailers are the type of merchandise sold, the variety and assortment of merchandise sold, the level of customer service, and the price of the merchandise.

The difference between the retail mix of department and discount stores illustrated the tradeoff retailers make between the price of merchandise they sell and the services they offer to their customers. To make profit and provide these additional benefits to its customers, department stores have to increase the prices of its merchandise to cover the additional costs. This is referred to as the price-cost tradeoff.

4.2 VOLUNTARY CHAINS

4.2.1 DEFINITION

Wholesaling organization established by wholesalers or retailers to gain purchasing power. Voluntary chain or group: Association of independent traders using collective power for purchasing, promotional and development purposes. Voluntary Chain a group or chain of retailers working together on a non-contractual basis to achieve economies of scale in buying, advertising, etc.

4.2.2 ABOUT VOLUNTARY CHAINS

Two special types of retailers, particularly in the grocery field, have evolved as a direct result of chain store competition – the retailer-cooperative and the voluntary chain. These new types have grown fast in the past ten years.
The retailer – cooperative type resulted from the initiative of independent retail merchants who combined into groups to get the advantages of large-scale buying – one of the competitive weapons of the corporate chain. At first many of these groups were merely loose affiliations without formal relationship. Nor did they have a central source of supply which could provide them with merchandise and perform the functions of storage and breaking of bulk. Within recent years, however, these groups – with central ware-houses and uniform merchandising – have assumed the outward characteristics of corporate chains.

The voluntary chains, of somewhat more recent origin, came into existence through the activity of wholesalers who established a particularly close relationship with certain selected retailer customers. In some cases this relationship is based on a contract, in others, on hardly more than an informal agreement. Here again, however, the recent tendency is for these groups to assume a definite form.

4.2.3 DOES DISTRIBUTION COST TOO MUCH?

A common feature of both of these types is the independent ownership of the retail store. In the retailer-cooperative the wholesale supply establishments are owned collectively by members of group and in the voluntary chain the sponsoring wholesaler remains an independent entity. The aim in both cases is to bring about coordination of the wholesaling and retailing functions so as to compete more effectively with the corporate chain. While neither of these voluntary groups is standardized to the same extent as the corporate chain they use many of the same methods. To a varying degree, and in various combinations, they use group advertising and promotion, private brands, uniform stock merchandising and control, suggested price lines, uniform store fronts, systems of display and arrangement of stores, standards of cleanliness, and standards of accounting and granting of credit.

4.2.4 ESTIMATES OF VOLUME

So recently have cooperative and voluntary chains become important that comprehensive statistics have not yet been compiled. In 1929 there were 395 cooperative grocery chains of both types, with an estimated membership of 53,400 retail stores and a total volume between $700 million. Although a large part of the business of the retailer-owned warehouses was with members, only a portion of the volume of the wholesaler – sponsored establishments consisted of sales to members. The Federal Trade Commission concluded that between two-thirds and three-fourths of the volume was represented by business with members.

By 1935, the number of cooperative warehouses and voluntary wholesalers maintaining such group relationships in the grocery trade had nearly doubled and the total wholesale volume was over $722 million. No comparable figures on the number of store members in the 741 groups operating in 1935 are available; but, according to another source, there were in March 1936 slightly more than 100,000 retailers affiliated with wholesaler-sponsored
4.3 RETAIL COOPERATIVE

4.3.1 DEFINITION

A retailers' cooperative is a type of cooperative which employs economies of scale on behalf of its retailer members. Retailers' cooperatives use their purchasing power to acquire discounts from manufacturers and often share marketing expenses. It is common for locally owned grocery stores, hardware stores and pharmacies to participate in retailers' cooperatives. Consumers' cooperatives, sometimes referred to as retail c The Best Western international hotel chain is actually a retailers' cooperative, whose members are hotel operators, although it now prefers to call itself a "nonprofit membership association." It gave up on the "cooperative" label after some courts insisted on enforcing regulatory requirements for franchisors despite its member-controlled status. Should be distinguished from retailers' cooperatives.

4.3.2 LIST OF RETAILERS' COOPERATIVES

- Grocery stores
- Pharmacies
- Hardware stores

4.3.3 GROCERY STORES

A grocery store is a store established primarily for the retailing of food. A grocer, the owner of a grocery store, stocks different kinds of foods from assorted places and cultures, and sells them to customers. Large grocery stores that stock products other than food, such as clothing or household items, are called supermarkets. Small grocery stores that mainly sell fruits and vegetables are known as produce markets (U.S) or greengrocers (Britain), and small grocery stores that predominantly sell snack foods.

History in the United States

U.S. grocery stores are descended from trading posts, which sold not only food but clothing, household items, tools, furniture, and other miscellaneous merchandise. These trading posts evolved into larger retail businesses known as general stores. These facilities generally dealt only in "dry" goods such as flour, dry beans, baking soda, and canned foods. Perishable foods were instead obtained from specialty markets: Fresh meat was obtained from a butcher, milk from a local dairy, eggs and vegetables were either produced by families themselves, bartered for with neighbors, or purchased at a farmers' market or a local greengrocer.

Many rural areas still contain general stores that sell goods ranging from cigars to imported napkins. Traditionally, general stores have offered credit to their customers, a system of payment that works on trust rather than modern credit cards. This allowed farm families to buy staples until their harvest could be sold.
4.3.3.1 INTERNATIONAL GROCERY STORES

The business of grocery stores varies from nation to nation; however, the stores are all similar in their principle selling of edible goods. The nature of these goods varies with local availability and traditional diet.

Traditional grocery stores in City market area in Bangalore, India

Grocery store in Jamnagar, India

When a small grocery store is in competition with large supermarkets, the grocery store often must create a niche market by selling unique, premium quality, or ethnic foods that are not easily found in supermarkets. A small grocery store may also compete by locating in a mixed commercial-residential area close to, and convenient for, its customers.

4.3.3.2 CULTURAL IMPACT

Some groceries specialize in the foods of a certain nationality or culture, such as Italian, oriental or Middle-Eastern. These stores are known as ethnic markets and may also serve as gathering places for immigrants. In many cases, the wide range of products carried by larger supermarkets has reduced the need for such speciality stores. Many teenagers find their first employment in grocery stores. Sandwiches are known as convenience stores or delicatessens.

4.3.4 PHARMACY

Pharmacy is the health profession that links the health sciences with the chemical sciences, and it is charged with ensuring the safe and effective use of medication. The scope of pharmacy practice includes more traditional roles such as compounding and
dispensing medications, and it also includes more modern services related to patient care, including clinical services, reviewing medications for safety and efficacy, and providing drug information. Pharmacists, therefore, are the experts on drug therapy and are the primary health professionals who optimize medication use to provide patients with positive health outcomes. The term is also applied to an establishment used for such purposes.

The word pharmacy is derived from its root word pharma which was a term used since the 1400–1600's. In addition to pharma responsibilities, the pharma offered general medical advice and a range of services that are now performed solely by other specialist practitioners, such as surgery and midwifery. The pharma (as it was referred to) often operated through a retail shop which, in addition to ingredients for medicines, sold tobacco and patent medicines. The phamas also used many other herbs not listed.

In its investigation of herbal and chemical ingredients, the work of the pharma may be regarded as a precursor of the modern sciences of chemistry and pharmacology, prior to the formulation of the scientific method.

The field of Pharmacy can generally be divided into three primary disciplines:

- Pharmaceutics
- Medicinal chemistry and Pharmacognosy
- Pharmacy practice

The boundaries between these disciplines and with other sciences, such as biochemistry, are not always clear-cut; and often, collaborative teams from various disciplines research together.

Pharmacology is sometimes considered a fourth discipline of pharmacy. Although pharmacology is essential to the study of pharmacy, it is not specific to pharmacy. Therefore it is usually considered to be a field of the broader sciences.

Other specializations in pharmacy practice recognized by the Board of Pharmaceutical Specialties include: cardiovascular, infectious disease, oncology, pharmacotherapy, nuclear, nutrition, and psychiatry.\(^1\) The Commission for Certification in Geriatric Pharmacy certifies pharmacists in geriatric pharmacy practice. The American Board of Applied Toxicology certifies pharmacists and other medical professionals in applied toxicology.

Pharmacists are highly-trained and skilled healthcare professionals who perform various roles to ensure optimal health outcomes for their patients. Many pharmacists are also small-business owners, owning the pharmacy in which they practice.

Pharmacists are represented internationally by the International Pharmaceutical Federation (FIP). They are represented at the national level by professional organisations such as the Royal Pharmaceutical Society of Great Britain (RPSGB), the Pharmacy Guild
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Pharmacists are represented internationally by the International Pharmaceutical Federation (FIP). They are represented at the national level by professional organisations such as the Royal Pharmaceutical Society of Great Britain (RPSGB), the Pharmacy Guild of Australia (PGA), the Pakistan Pharmacists Society (PPS) and the American Pharmacists Association (APhA).

In some cases, the representative body is also the registering body, which is responsible for the ethics of the profession. Since the Shipman Inquiry, there has been a move in the UK to separate the two roles.

Pharmacists practice in a variety of areas including retail, hospitals, clinics, nursing homes, drug industry, and regulatory agencies. Pharmacists can specialize in various areas of practice including but not limited to: hematology/oncology, infectious diseases, ambulatory care, nutrition support, drug information, critical care, pediatrics, etc.

4.3.5 HARDWARE STORE

Hardware stores sell hardware: for instance fasteners, keys, locks, hinges, wire, chains, plumbing supplies, tools, utensils, cutlery and machine parts.

These stores were once as much a part of American small town culture as the drug store soda fountain and local church, but in recent years larger "building materials" centers have outmoded them. In the United Kingdom, hardware stores were traditionally (pre-1980s) called ironmongers, and larger, out-of-town hardware shops are called Do-it-Yourself or DIY centres.

In the United States many older hardware stores are organized as retailers' cooperatives, but newer big-box chains such as Lowe's and Home Depot are for-profit corporations.

4.4 CONSUMER COOPERATIVE

4.4.1 DEFINITION

A consumers' cooperative is a business owned by its customers. Employees can also generally become members. Members vote on major decisions, and elect the board of directors from amongst their own number. A well known example in the United States is the REI (Recreational Equipment Incorporated) co-op, and in Canada: Mountain Equipment Co-op.
4.4.2 ABOUT CONSUMER COOPERATIVE

The world's largest consumers' cooperative is the Co-operative Group in the United Kingdom, which offers a variety of retail and financial services. The UK also has a number of autonomous consumers' cooperative societies, such as the East of England Co-operative Society and Midcounties Co-operative. In fact the Co-operative Group is something of a hybrid, having both corporate members (mostly other consumers' cooperatives, as a result of its origins as a wholesale society), and individual retail consumer members.

Japan has a very large and well developed consumer cooperative movement with over 14 million members; retail co-ops alone had a combined turnover of 2.519 trillion Yen (21.184 billion US dollars [market exchange rates as of 11/15/2005]) in 2003/4. (Japanese Consumers' Co-operative Union., 2003).

Migros is the largest supermarket chain in Switzerland and keeps the cooperative society as its form of organization. Nowadays, a large part of the Swiss population are members of the Migros cooperative – around 2 million of Switzerland's total population of 7.2 million[1][2], thus making Migros a supermarket chain that is owned by its customers.

Coop is another Swiss cooperative which operates the second largest supermarket chain in Switzerland after Migros. In 2001, Coop merged with 11 cooperative federations which had been its main suppliers for over 100 years. As of 2005, Coop operates 1437 shops and employs almost 45,000 people. According to Bio Suisse, the Swiss organic producers' association, Coop accounts for half of all the organic food sold in Switzerland.

Cooperative societies of consumers formed for the purpose of buying and distributing commodities and taking the profits themselves have long existed in the United States. They have never played an important part in our distribution system, however, and until recently have not attracted much attention. In many parts of Europe, on the other hand, consumer cooperation has not only developed into the biggest kind of big business, but has had a vast influence on political and social thinking, usually in close association with labor unions and sometimes with labor parties.

Some American cooperatives have been conspicuously successful; but many of these have been established by immigrants from Europe who brought with them not only the formulas but the habits and the ideology of the cooperative movement. Their traditions generally led back to Rochdale, England, where a small group of impoverished weavers in 1844 succeeded in establishing a little cooperative store, so suited to their needs and to the times that its formula was rapidly adopted in other English communities, and then in other countries.
4.4.3 THE ROCHDALE PRINCIPLES

The now famous "Rochdale principles" were, in brief:

1. Unrestricted membership and democratic control. This was effected by giving every member an equal vote, regardless of the number of shares to which he had subscribed, by making the price of each share very low and by permitting even this to be paid for in instalments.

2. The sale of goods at prevailing market prices, all profits to be returned at frequent intervals to the member-customers according to the extent of their purchases, not to stockholders according to the extent of their holdings. The purpose of this was to avoid the antagonism of private business, and price-wars, by which merchants with superior capital had been able to undersell and crush many previous cooperative societies and, with competition out of the way, to raise their prices once more.

3. Cash sales, to enable the society to make the fullest possible use of its necessarily limited capital.

One reason, at least, why American workers did not take readily to consumer cooperation was that they did not have to. There was poverty in the United States; but the standard of living here was almost constantly rising. The poor in this "Land of Opportunity," did not feel doomed to lives of poverty. However inequitably wealth might seem to be distributed this was not a land where conditions were so bad that the masses could be persuaded their only hope lay in supplanting the profit system with some kind of cooperative commonwealth. The overwhelming majority had entirely different hopes, and their hopes were fortified by economic realities.

If Americans did not like their jobs they could become independent farmers; and even after the free lands were all taken up and the farmers themselves ceased to be independent, there were always great new developments-new mines to be opened, new railroads to be laid and great new industries, not only with new jobs but new kinds of jobs and new and promising careers.

The depression in the early 1930's brought a different attitude. But it did not produce quite the mood which resulted in the Rochdale movement. That movement was born of the desperation of workers determined to protect themselves against capitalists who seemed to be making profits out of their misery. Whatever the cause of the depression, it was obviously not a condition out of which American capitalists were making profits. The depression resulted in a decided growth of consumer cooperatives and a great deal of excited talk about them. But when one looks at the figures, they do not bulk large among the figures of retail distribution as a whole.
4.4.4 VOLUME OF COOPERATIVE BUSINESS

Although no complete census of the cooperative movement has yet been undertaken the Bureau of Labor Statistics has made several surveys, the latest of which covered the year 1936.14 Consumers' cooperation has taken many other forms than the buying of commodities, including the group purchase of medical care, housing, electricity, insurance, banking, and telephone service. However, the best known form of cooperative in this country is the retail store handling groceries and general merchandise. Many other types of commodities, including farm supplies, hardware, paints, electrical appliances, clothing, furniture, milk, coal, gasoline, oil, and tires are also distributed through cooperative enterprises.

About 1,900 of these retail cooperatives have banded together to get the advantages of group purchases by establishing twenty regional wholesale associations, and eighteen of these wholesale federations have formed two "super-wholesales" in order to extend the advantages of large-scale buying. Cooperative wholesaling has become well established and has grown rapidly in recent years. Regional wholesale cooperatives reported sales in excess of $40 million in 1936—a gain of 24 per cent over the preceding year. Practically all of them enlarged their scope during the year by adding new lines of goods. An increasing number of oil associations are adding food and household supplies to the petroleum products and automobile tires already handled. Besides providing warehousing and bulk stations, a number engage in manufacturing operations and provide educational and auditing services for their members. By the end of 1938 there were twenty-two regional "wholesales" compared with twenty in 1936 and two joint or interregional groups were organized by the regional associations to distribute, respectively, women's clothing and farm machinery. The volume of the cooperative wholesale associations was reported to have reached a total of $53 million in 1937.

4.4.5 GROWTH OF CONSUMERS' COOPERATIVES

Although constituting only a negligible fraction of total retail trade of the country in 1936, consumers' cooperatives have expanded rapidly since the depth of the depression. Membership in consumers' retail cooperatives increased 7.2 per cent from 1935 to 1936 and sales volume expanded by 16 per cent. From 1934 to 1936 cooperative retail stores increased sales by 38 per cent and petroleum associations, by 51 per cent; while wholesale associations formed by consumers' cooperatives increased their sales volume by nearly 86 per cent.

A picture of trends in retail cooperation during the twelve-year period ending in 1936 is given in Figure 9. Sales of both retail stores and petroleum associations increased steadily during the years of general prosperity ending in 1929, but petroleum associations showed a much more rapid gain. After 1929 sales volume declined to a low point in 1933, since which there has been a marked recovery. Petroleum associations again fared better than retail stores, suffering a smaller depression loss and experiencing a much stronger recovery. Patronage refunds were well maintained, being 30 per cent larger in 1936 than in 1929 in the case of retail stores, in spite of a lower volume of business, and 74 per cent
above the 1929 level in the case of petroleum associations. Since patronage refunds are
paid out of profits, this record would seem to indicate that consumer cooperatives have
been able to keep firm control of operating costs since 1929.

4.4.6 SMALL SCALE OF COOPERATIVES

Although cooperative retailing in the United States appears in a variety of forms and
locations, a large proportion of it is carried on in the North Central states. The petroleum
associations are found almost wholly in the Mississippi Valley section. Most of the retail
cooperatives are small organizations operating in small communities. The typical
consumers' cooperative had from 100 to 250 members in 1936; nearly 37 per cent of all
associations fell in this group. The average membership of store associations was 219,
and of petroleum associations, 335, and less than 4 per cent of all retail cooperatives had
1,000 or more members, which in Great Britain would be considered a fair-sized
association.

Analysis of store associations and their members by the Bureau of Labor Statistics
showed that "more than three-fourths of the associations, over three-fifths of the
membership, and nearly three-fourths of the business done in 1936 was in places with a
population of 5,000 or less. Of the whole group of distributive associations, 48 per cent
fell in the sales range of $25,000 to $100,000," while share capital reported to the Bureau
averaged less than $15,000 per association, and "45 per cent had a net worth of less than
$10,000, and another 30.2 per cent had a net worth of from $10,000 to $25,000." Nearly
half (47 per cent) of the distributive associations were employing from one to three
workers at the end of 1936.

4.4.7 FUTURE OUTLOOK FOR CONSUMER COOPERATION

Whether the cooperative movement in the United States is likely to grow rapidly in the
future is not clear. After nearly a century since the establishment of the first store, the
total volume done by retail cooperatives is still less than one per cent of total retail sales.
Thus far at least the consumer cooperative movement holds out no great promise to its
sponsors nor does it offer, except in a few localities, any serious threat to its competitors.
Expansion of the movement in the future, as in the past, will depend upon the extent to
which cooperatives are able to compete with existing distributive organizations. The
history of both European and American cooperatives shows that social aims alone are not
sufficient to insure their permanent growth. They must also be able to maintain low costs
of operation and thus produce savings for their members, and there is evidence,
especially in the retailing of farm supplies and petroleum products, that many
cooperatives have been able to do this.

Over 70 per cent of cooperative retail organizations covered by the Bureau survey
reported net savings on their 1936 operations, while 7 per cent sustained losses. Only 38
per cent of the store associations and 63 per cent of the petroleum associations distributed
savings in the form of patronage refunds to their members. These ranged from 2 to 6 per
cent of sales for most of the stores, while most petroleum associations paid refunds of 5
to 6 per cent and 10 to 11 per cent. The average amount refunded to member-buyers was $13.42 for the year in the case of retail stores, and $13.87 for petroleum association members.

A good augury for the future of consumers' cooperation is the emphasis the organized cooperative groups are placing on the education of members and employees, and on better auditing and accounting systems. They are developing centralized services to provide advice on merchandising methods and store planning, technical training for managers and clerks, an auditing service, and laboratory tests of the quality of goods. The Bureau of Labor Statistics found a sounder development of consumers' cooperation in 1936 than at any time since it began to study the movement in 1918. But it also found that many independent and isolated associations were far below the general level of the federated groups in business management and financial and operating stability.

4.5 CORPORATE CHAINS

4.5.1 DEFINITION

The chain store is by no means a recent development, even on the American continent. The Hudson's Bay Company, chartered in 1670, is probably the oldest chain system in America, but research has traced the idea far back in the dim past of Chinese history. The rapid increase of chain systems in recent times, however, has been of far-reaching importance to distribution and has had a profound influence on both consumers and dealers.

4.5.2 COMPARISON WITH INDEPENDENTS

Although less than one out of twelve of the 1.6 million retail stores in the United States in 1935 were owned by chain systems, chain stores handled nearly 23 per cent of the total retail sales volume in that year. In 1929, with nearly 10 per cent of retail stores under chain management, their proportion of the retail volume was only 20 per cent. Chain stores operating on a sectional or national basis (in contrast to the local or manufacturer-controlled types) showed a substantial increase in number of outlets between 1929 and 1935. They accounted for more than 19 per cent of the entire retail business of the country in the latter year, as compared with only 12.5 per cent in 1929. Local and manufacturer-controlled chains, on the other hand, lost ground between 1929 and 1935.

Chain stores have made the greatest headway in staple articles with a rapid sales turnover. Variety stores have so far been the most outstanding chain store development, having 90 per cent or more of the business in this field in both 1929 and 1935. The shoe and automobile-accessories trades have been marked by a recent rapid chain store growth until by 1935 they did half of the retail business in these lines. Chains have also been successful in groceries, cigars, and drugs. In the grocery field, which is the largest single class of business, chains controlled nearly 40 per cent of the trade in 1935, showing a gain in the combination grocery and meat trade since 1929, the year which many have
regarded as the peak in chain store development. The relative stability of sales volume shown by the chains in the depression as compared with retail trade as a whole is undoubtedly due, in part at least, to their concentration on necessities such as foodstuffs, variety and drug items, as well as to the economies of large-scale buying.

4.5.3 INFLUENCE OF THE CHAINS

But the figures on their proportion of total retail sales fail to show the total influence of chain store policies on distribution practices all over the country. The chains inaugurated new methods of buying and selling and demonstrated new advantages and economies which woke up hundreds of thousands of independent merchants and their customers to the need for better shopkeeping and a speed-up in the flow of goods. In many a country village the presence of a modern, systematized chain store has jolted the local storekeeper out of his easy-going habits to the benefit of the whole community.

Although chain methods have their disadvantages, they have clearly demonstrated the benefits of mass buying under central supervision, careful stock control, rapid turnover, central ware-housing, intelligent display and store arrangement, standards of cleanliness and quality, effective use of part-time employees, systematic selection and training of the selling force and elimination of non-essential services. It was soon discovered that many of the advantages of the chains could be adopted or achieved under independent management by better cooperation between retailers, wholesalers, and producers. Economies were effected by other types of business operation which have made them better able to compete with the chains. Consumers as well as business interests have been at least partially influenced by the lower price levels of the chains to establish cooperative enterprises to cut the price spread between the production cost of goods and the ultimate selling price.

4.5.4 THE PROS AND CONS OF CHAINS

Although the rise of chains has enlisted wide public patronage they are considered by many to be a social menace. By their rapid growth they have undoubtedly caused various painful business readjustments. The Federal Trade Commission's extensive investigation in this field raises some of the pros and cons of the chain store in American life. The Commission observed that chain operation resulted in certain advantages such "as those flowing from the integration of production and of wholesale and retail distribution, from the savings involved in avoiding credit and delivery service, and from the ability of chains to realize the benefits of large-scale advertising," and concluded that "to eliminate such advantages . . . would involve radical interference with the rights of private ownership and initiative, virtual abandonment of the competitive principle, and destruction of the public advantage represented by lower prices and lower cost of living."

One part of the chains' competitive advantage in lower selling prices the Commission thought should be cancelled by force of Federal law-discrimination in prices and terms by manufacturers against independents and in favor of chains, a practice accounting for a most substantial part of the chains' ability to undersell independents. . . . It was concluded
that many of the low buying prices of the chains had little, if any relation to differences in quantity or cost of selling.

There has been some disagreement with the Commission's conclusions on this latter point, however. In an analysis of the findings, Charles F. Phillips of Colgate University denies that lower buying prices secured by the chains are a large factor in lowering their selling prices. Using the Commission's data, he points out that the success of the chains in reducing gross margins through more efficient management is much more important. In the grocery study, for instance, he contends that only 16.4 per cent of the independents' higher selling price can be traced to greater cost of merchandise while 83.6 per cent results from a larger gross margin. In drugs, similarly, 91.2 per cent of the independents' higher price is due to higher gross margin, leaving but 8.8 per cent to be accounted for by higher cost of the merchandise handled.

4.5.5 CRITICISM OF CHAIN METHODS

The chief criticism of the bargaining methods used by chains to get special price concessions has come from manufacturers. Out of 129 manufacturers of grocery products interviewed in the Federal Trade Commission inquiry, 76 admitted that preferential treatment in some form had been given to chain systems. Of these, 33 stated positively that threats and coercion had been used by chain store companies to obtain these concessions and 23 of this group admitted that chain pressure had been successful. Among the forced concessions were: brokerage and freight allowances, lower prices, rebates, and advertising allowances.

Another common charge leveled at the chains is that they tend toward monopolistic control of certain kinds of business, at least in certain localities. While the chains have succeeded in forcing out competitors by selling at lower prices in many instances, the special inquiry uncovered no illegal instance of monopoly. The Commission concluded, however, that if the trend of the past decade or two should continue, a monopolistic situation in some lines would eventually result. This fear of undue power and monopoly is undoubtedly one cause for the wave of special chain store taxes. They have been advocated not so much as a source of revenue, as "to assist in the correcting of an unbalanced situation that has arisen in this country," in the words of one legislator.

At least twenty-two states have passed and put into effect laws taxing chain stores in an effort to protect the independent merchant and slow down the rate of chain store growth.

The Federal Trade Commission reported other unfair practices charged against chains: an extensive use by large chains of loss leader merchandise sold at prices below the average cost of doing business in such commodities and in some cases below the actual cost of the merchandise itself. Some ground was found also for the charge that among the chains there was more extensive short-weighing, and less extensive over-weighing of goods sold by weight, than among independents. However, the evidence collected on this point was far from convincing.
As for misleading advertising, with which chains have been charged, the Commission admitted that the chains had gained through the use of loss leaders in advertising, but could find no legal grounds on which to question their general advertising policies. Nor did the Commission regard the carrying of undersized or sub-standard packages, with which the chains had been charged, as an unfair practice. In most cases it was found that the sizes were definitely made smaller by manufacturers, to be sold at lower prices. A very limited study of canned vegetables and fruits showed that the chains’ brands were as good or better than nationally advertised brands.

4.5.6 COOPERATIVE AND VOLUNTARY CHAINS

Two special types of retailers, particularly in the grocery field, have evolved as a direct result of chain store competition-the retailer-cooperative and the voluntary chain. These new types have grown fast in the past ten years.

The retailer-cooperative type resulted from the initiative of independent retail merchants who combined into groups to get the advantages of large-scale buying—one of the competitive weapons of the corporate chain. At first many of these groups were merely loose affiliations without formal relationship. Nor did they have a central source of supply which could provide them with merchandise and perform the functions of storage and breaking of bulk. Within recent years, however, these groups-with central warehouses and uniform merchandising—have assumed the outward characteristics of corporate chains.

The voluntary chains, of somewhat more recent origin, came into existence through the activity of wholesalers who established a particularly close relationship with certain selected retailer customers. In some cases this relationship is based on a contract, in others, on hardly more than an informal agreement. Here again, however, the recent tendency is for these groups to assume a definite form.

A common feature of both of these types is the independent ownership of the retail store. In the retailer-cooperative the whole-sale supply establishments are owned collectively by members of the group and in the voluntary chain the sponsoring wholesaler remains an independent entity. The aim in both cases is to bring about coordination of the wholesaling and retailing functions so as to compete more effectively with the corporate chain. While neither of these voluntary groups is standardized to the same extent as the corporate chain they use many of the same methods. To a varying degree, and in various combinations, they use group advertising and promotion, private brands, uniform stock merchandising and control, suggested price lines, uniform store fronts, systems of display, and arrangement of stores, standards of cleanliness, and standards of accounting and granting of credit.

4.5.7 ESTIMATES OF VOLUME

So recently have cooperative and voluntary chains become important that comprehensive statistics have not yet been compiled. In 1929 there were 395 cooperative grocery chains
of both types, with an estimated membership of 53,400 retail stores and a total volume between $600 million and $700 million. Although a large part of the business of the retailer-owned warehouses was with members, only a portion of the volume of the wholesaler-sponsored establishments consisted of sales to members. The Federal Trade Commission concluded that between two-thirds and three-fourths of the volume was represented by business with members.

By 1935, the number of cooperative warehouses and voluntary wholesalers maintaining such group relationships in the grocery trade had nearly doubled and the total wholesale volume was over $722 million! No comparable figures on the number of store members in the 741 groups operating in 1935 are available; but, according to another source, there were in March 1936 slightly more than 100,000 retailers affiliated with wholesaler-sponsored or retailer-owned warehouses. In addition, over 5,600 retailers engaged in group-selling activities.

Both the sponsoring wholesalers and the retailer-owned warehouses not only serve the members of these cooperative groups but also sell to other retailers. Retailer-owned warehouses in 1935 apparently sold slightly more than 91 per cent of their volume to their own members, but voluntary-group wholesalers who reported in detail sold only 39 per cent to members. The estimated total of purchases through these cooperative channels by member retailers in the grocery trade in 1935 was approximately $360 million, reflecting a retail volume of around $440 million.

4.5.8 GAINS OF COOPERATIVE-RETAILERS

Then, too, the individual retail members of these cooperative groups did not confine their business to them but also bought from other unaffiliated sources. Although no reliable estimates are available as to what proportion of the total retail grocery business is done by these cooperative-retailer groups the doubling in the number of their members and the apparent increase in volume of business leaves little doubt that they have gained ground rapidly since 1929, in contrast with the corporate grocery chains, which have just about held their own.

The ultimate to which this movement is likely to grow appears to be set by the number of stores of sufficient size to be included in any group or cooperative scheme. If it is true that 100,000 food retailers were affiliated with either wholesaler-sponsored or retailer-owned warehouses in 1935, the movement probably already includes a large proportion of the stores buying enough merchandise to make cooperation profitable. In 1935 the Census showed only 157,500 food stores with an annual volume of $10,000 or more.

The cooperative movement in the drug trade is almost entirely of the retailer-cooperative type, commonly known as mutuals. As in the early efforts in the grocery field, members merely buy as a group, with a minimum of services or warehousing. Up to 1929 the movement had a regular but slow growth, and even now few of the policies and methods used by the corporate chains, such as uniform store features, managerial services, etc., have been adopted. In 1929, twenty-four mutuals, with a total membership of 6,041
independent drugstores, reported to the Federal Trade Commission; only sixteen reported sales, amounting to less than $25 million, and practically all to chain members." By 1935 the number of drug mutuals had increased to thirty-one, with total sales of nearly $35 million. If a mutual wholesaler is defined as one transacting over half of its business with members or under a cooperative arrangement, there were only twenty organizations of this type.

Food "voluntaries" have not only established their success in their original spheres, but have constantly reached out for greater prestige and power. Imitating national and sectional corporate chains, they have associated with other voluntaries to build up national or territorial chains. In March 1936 there were 438 of these groups of voluntaries enumerated. Approximately 38 per cent of the retail stores belonging to voluntaries were affiliated with larger organizations for merchandising purposes. The percentage of local outlets connected with national or territorial groups is increased to slightly more than 51 by adding the retail stores belonging to voluntary groups which had some contact with one another through buying organizations. Obviously, voluntaries have passed the experimental stage. They have proven definitely successful in combating chain store competition. Organized cooperatively, independent stores have been able to seize many of the advantages of chain operation and at the same time to retain their own advantage in escaping chain store taxes and maintaining greater flexibility in prices, hours, and special services to consumers.
HUMAN RESOURCE MANAGEMENT OVERVIEW

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5.1 INTRODUCTION

I am responsible for organizational development, executive and career development, succession planning, college relations, selling services, and executive staffing for Federated Department Stores (Macy's, Bloomingdales)-the largest department store chain in the world.

One of the biggest challenges facing Federated and most other retail chains is hiring and retaining managers to lead our company in the coming years. The changing demographics are working against us. Over the next ten years, a lot of our senior managers, members of the Baby Boomer generation, will be retiring. So we are going to be competing with other retailers and firms in other industries for a smaller pool of available managers in the generations behind the Boomers. In addition, retailing is becoming a much more sophisticated business. Our managers need to be comfortable
with new technologies, information and supply chain management systems, and international business as managing a diverse workforce and buying merchandise.

We have developed a number of initiatives to help us deal with this challenge. First, we created the Federal leadership Institute In 1998, which currently serves as the corporate University for the top 200 executives, in the corporation for store managers, DMMs, and above. A key objective of the Institute is to develop leadership skills. At the institute we emphasize the need for participating: managers to prepare the people who work for them toward advancement. We have incorporated this training and development emphasis in many of our processes including the annual reviews of our managers. Every manager is evaluated on how well they are developing their subordinates.

A second initiative we have undertaken is developing a Web site (www: retailogy.com) to stimulate interest in retailing careers and help us recruit the best and brightest on college campuses. Retailing does not get: the press coverage that high-tech businesses get, but running a retail business is just as exciting and complex. Students have a lot of choices when they graduate and many of them don't really know much about retailing. Their experience with our industry is shopping in our stores and at our Web site and working as sales associates during the holidays. Students don't realize that if they enter our management training program when they graduate, they can be in charge of a $5 million department with 20 employees or buying and managing $50 million of merchandise in several years. At our retailogy Web site, students can learn about the wide range of retail careers and the opportunities for advancement and "meet" our executives and hear their stories.

**QUESTIONS**

- In what way does the management of human resources play a vital role in retailer’s performance?
- How do retailers build a sustainable competitive advantage by developing and managing their human resources?
- What activities do retail employees undertake, and how are they typically organized?
- How does a retailer coordinate employees' activities and motivate them to work toward the retailer's goals?
- What are the human resource management programs for building a committed workforce?
- How and why do retailers manage diversity among their employees?

Retailers achieve their financial objectives by effectively managing their five critical assets: locations, merchandise inventory, stores, employees, and customers. This chapter focuses on the organization and management of employees—the retailer's human resources. Howard Schultz, chairman and chief global strategist of Starbucks, emphasizes that "the relationship that we have with our people and the culture of our company is our most sustainable competitive advantage."
Human resource management is particularly important in retailing because employees play a major role in performing its critical business functions. In manufacturing firms, capital equipment (machinery, computer systems, robotics, etc.) often is used to perform the jobs employees once did. But retailing and other service businesses remain labor intensive. Retailers still rely on people to perform the basic retailing activities, such as buying and displaying merchandise and providing service to customers.

This unit focuses on the broad strategic issues involving organization structure; the general approaches used for motivating and coordinating employee activities; and the management practices for building an effective, committed workforce and reducing turnover. The activities undertaken to implement the retailer's human resource strategy including recruiting, selecting, training, supervising, evaluating, and compensating sales associates, are typically undertaken by store management.

5.2 GAINING COMPETITIVE ADVANTAGE THROUGH HUMAN RESOURCE MANAGEMENT

Human resource management can be the basis of a sustainable competitive advantage for three reasons.
First, labor costs account for a significant percentage of a retailer's total expenses. Thus, the effective management of employees can produce a cost advantage.
Second, the experience that most customers have with a retailer is determined by the activities of employees who select merchandise; provide information and assistance, and stock displays and shelves. Thus, employees can play a major role in differentiating a retailer's offering from its competitor's.
Third, these potential advantages are difficult for competitors to duplicate. For example, every department store executive knows that Nordstrom employees provide outstanding customer service; however, they are not able to develop the same customer-oriented culture in their firms.
Retailing View 5.1 describes how Men's Wear-house built a competitive advantage through effective human resource management.

Refact
Labor costs typically more than 25 percent of sales and 50 percent of operating costs in service-oriented department and specialty stores

Refact
A study of Sear’s employees found that a 5 percent increase in employee satisfaction resulted in a 1.3 percent increase in customer satisfaction, which led to a 0.5% growth in sales.

5.2.1 Objectives of Human Resource Management
The strategic objective of human resource management is to align the capabilities and behaviors of employees with the short- and long-term goals of the retail firm. One human resource management performance measure is employee productivity - the retailer's sales or profit divided by the number of employees. Employee productivity can be improved by increasing the sales generated by employees, reducing the number of employees, or both.

Whereas employee productivity is directly related to the retailer's short-term profits, employer attitudes such as job satisfaction and commitment have important effects on customer satisfaction and the subsequent long-term performance of the retailer. In addition to survey measures of these attitudes a behavioral measure of these attitudes is employee turnover. Employee turnover equals

\[
\frac{\text{Number of employees leaving their job during the year}}{\text{Number of positions}}
\]

So if a store owner had five sales associate positions and three left and were replaced during the year the turnover would be \( \frac{3}{5} = 60 \) percent. Note that turnover can be greater than 100 percent if a substantial number of people are replaced more than once during the year. In our example, if the replacements for the three employees that left also left during the year, the turnover would be \( \frac{6}{5} = 120 \) percent.

A failure to consider both long- and short-term objectives can result in the mismanagement of human resources and a downward performance spiral, as shown in Exhibit 5.1. Often, when retailers' sales and profits decline due to increased competition, they respond by decreasing labor costs. They reduce the number of the sales associates in stores, hire more part-timers, and spend less on training. Although these actions may increase short-term productivity and profits, they have an adverse effect on long-term performance because employee morale and customer service decline.
Exhibit 5.1 Downward Performance Spiral
The Men’s Wear-house: Using Human Resources to Build a Competitive Advantage

Men’s tailored apparel has been a declining market since George Zimmer, at the age of 24, opened his first Wear-house in Houston in 1973. While the sales of Men’s tailored clothing has declined over the last 30 years, Men warehouse has continued to gain market share, becoming one of the largest specialty retailers of men's apparel in North America. Men's Wearhouse sales have grown to over $1.5 billion with over 700 retail store locations in the United States and Canada.

The core of the company’s strategy is to offer superior customer service delivered by knowledgeable, caring salespeople, customer called wardrobe consultants. The, term wardrobe consultants was chosen intentionally to emphasize that sales associates are professionals like physicians or attorneys.

George Zimmer believes in a win-win-win philosophy, in which the customer, the wardrobe consultant, and the company all do well. Because the company believes that its job is develop the untapped human potential in its employees, it devotes considerable attention to training. Some of Men's Wear-house's core philosophies include the following:

**Fulfillment at Work** - Job satisfaction--everyone wants to have it. So how does Men's Wear-house help its employees find it? It all starts with trust and respect.

**Don't Be Afraid of Mistakes** - You can tell a lot about a company by observing the way they handle mistakes. Men's Wear-house focuses on the learning opportunities that mistakes provide. It likes to say that it celebrates its successes and its failures.

**Balancing Work and Family Life** - Men's Wear-house encourages employees to balance the worlds inside and outside of the workplace.

**Having Fun at Work with Friends** - A workplace filled with fun amongst friends is GOOD for business.

**Celebrate Individual and Team Success** - Men's Wear-house recognizes that individual and team excellence are interrelated—they support each other. That's why it celebrates both individual and team achievements.

**Promote from Within** - Skills and experience at a job are only part of the picture. When picking its leaders, it looks for people who care about others, take the time to listen, and show enthusiasm when working toward team and individual goals. That's why it promotes people it already knows.

*Sources: 2005 Men's Wear-house Annual Report; http://www.menswearhouse.com*
Extensive training and teamwork enable Men's Wear-house sales personnel to provide excellent customer service and build a competitive advantage for the firm.

5.2.2 The Human Resource Triad

Retailers such as Home Depot, Wegmans, Men's Wear-house, and The Container Store believe man resources are too important to be left to the human resources (HR) department. The full potential of a retailer's human resources is realized when three elements of the HR triad work together - HR professionals, store managers, and employees.

Human resources professionals, who typically work out of the corporate office, have specialized knowledge of HR practices and labor laws. They are responsible for establishing HR policies, enforcing the retailer's strategy, and providing tools and training used by line managers and employee to implement those policies. Store or line managers, who primarily work in the stores, are responsible for bringing the policies to life through their daily management of the employees who work for them. The issues confronting HR professionals are discussed here. Finally, the employees also share the management of human resources. They can play an active role by providing feedback on the policies, managing their own careers, defining their job functions, and evaluating the performance...
of their managers and coworkers. These three elements of the HR triad are illustrated in Exhibit 5.2.

Exhibit 5.2  Human Resource Triad

5.2.3 Special HR Conditions Facing Retailers

Human resource management in retailing is very challenging due to (1) the need to use part-time employees, (2) the emphasis on expense control, and (3) the changing demographics of the workforce. Retailers operating in international markets face additional challenges.

Part-Time Employees - Most retailers are open long hours and weekends to respond to the needs of family shoppers and working people. In addition, peak shopping periods occur during lunch hours, at night, and during sales. To deal with these peak periods and long hours, retailers have to complement their one or two shifts of full-time (40 hours per week) store employees with part-time workers. Part-time workers can be more difficult to manage than full-time employees because they often are less committed to the company and their jobs and more likely to quit than full-time employees.
Expense Control - Retailers often operate on thin margins and must control their expenses. Thus, they are cautious about paying high wages to hourly employees who perform low skill jobs. To control costs, retailers often hire people with little or no experience to work as sales associates, bank tellers, and waiters. High turnover, absenteeism, and poor performance often result from this use of inexperienced, low-wage employees.

The lack of experience and motivation among many retail employees is particularly troublesome because these employees are often in direct contact with customers. Unlike manufacturing workers on an assembly line, the lowest-paid retail employees work in areas that are highly visible to customers. Poor appearance, manners, and attitudes can have a negative effect on sales and customer loyalty.

Employee Demographics - The changing demographic pattern will result in a chronic shortage of qualified sales associates. Annual percentage growth in the U.S. labor market in 1980 was 14 percent. In 2010, it is forecasted to be only 4 percent and then drop to 2 percent in 2020. Thus, retailers need to explore various approaches for operating effectively in tight labor market-increase retention; recruit, train, and manage minority, handicapped, and mature workers; and use incentives and technology to increase productivity.

To satisfy their HR needs, retailers are increasing the diversity of their workforces, employing more minorities, handicapped people, and elderly. The work values of young employees are quite different than those of their Baby Boomer supervisors, which causes many older managers to feel that younger employees have poor work ethics. Younger employees respond by saying, "Get a life," as they strive to balance their personal and professional lives. Managing this growing diversity and the changing values in the retail workforce creates both opportunities and problems for human resource managers.

More and more (retailers are encouraging older workers to work for them, because older workers prove to be more reliable employees. The attraction of older workers stems from their lower turnover rates and often better work performance. Home Depot even offers winter work in Florida and summer work in Maine. By building relationships with groups like the American Association of Retired Persons (AARP), Home Depot hopes to help people like military retirees find jobs in the future. Training and recruitment costs are much lower for older people, evening out any increased costs in missed days for medical problems.

International Human Resource Issues - Finally, the management of employees working for international retailers is especially challenging. Differences in work values, economic systems, and labor laws mean that HR practices that are effective in one
country might not be effective in another. For example, U.S. retailers rely heavily on individual performance appraisals and rewards tied to individual performance—a practice consistent with the individualistic U.S. culture. However, in countries with a collectivist culture, such as China and Japan, employees downplay individual desires and focus on the needs of the group. Thus, group-based evaluations and incentives are more effective in those countries.

The legal/political system in countries often dictates the human resource management practices that retailers can use. For example, the United States has led the world in eliminating workplace discrimination. However, in Singapore, it is perfectly legal to place an employment ad specifying that candidates must be male, between the ages of 25 and 40 years, and ethnic Chinese. In the Netherlands, a retailer can make a substantial reduction in its workforce only if it demonstrates to the government that the cutback is absolutely necessary. In addition, a Dutch retailer must develop a plan for the cutback, which must then be approved by unions and other involved parties.

Finally, the staffing of management positions in foreign countries raises a wide set of issues. Should management be local, or should expatriates be used? How should the local managers or expatriates be selected, trained, and compensated? For example, Wal-Mart makes every effort to replace expatriates with locals. Yet it is expanding faster than it can train people internally and has lost high-quality local managers to rivals.

The following sections of this chapter examine three important strategic issues facing retail HR professionals:

(1) The design of the organization structure for assigning responsibility and authority for tasks to people and business units,

(2) The approaches used to coordinate the activities of the firm's departments and employees and motivate employees to work toward achieving company goals,

(3) The programs used to build employee commitment and retain valuable human resources.

Refact
It costs US retailers 6 weeks of wages to fire an employee. The cost in China is 90 weeks of wages and 165 weeks in Brazil.

5.3 DESIGNING THE ORGANIZATION STRUCTURE FOR A RETAIL FIRM
The organization structure identifies the activities to be performed by specific employees and determines the lines of authority and responsibility in the firm. The first step in developing an organization structure is to determine the tasks that must be performed. Exhibit 5.3 shows tasks typically performed in a retail firm.

These tasks are divided into four major categories in retail firms: strategic management, administrative management (operations), merchandise management, and store management. The organization is based on these tasks and the managers who perform them.

Strategic market and finance decisions are undertaken primarily by senior management: the CEO, chief operating officer, vice presidents, and the board of directors that represents shareholders in publicly held firms. Administrative tasks are performed by corporate staff employees who have specialized skills in human resource management, finance, accounting, real estate, distribution, and management information systems. People in these administrative functions develop plans, procedures, and information to assist operating managers in implementing the retailer's strategy.

In retail firms, the primary operating or line managers are involved in merchandise management and store management. These operating managers implement the strategic plans with the assistance of administrative personnel. They make the day-to-day decisions that directly affect the retailer's performance.
5.3.1 Matching Organization Structure to Retail Strategy

The design of the organization structure needs to match the firm's retail strategy. For example, category specialists and warehouse clubs such as Best Buy and Costco target price-sensitive customers and thus are very concerned about building a competitive advantage based on low cost. They minimize number of employees by assigning decisions to a few people at corporate headquarters. These centralized organization structures are very effective when there are limited regional or local differences customer needs.

In contrast, high-fashion clothing customers often aren't very price sensitive, and their tastes vary across the country. Retailers targeting these segments tend to have more managers and make decisions at local store levels. When more decisions are made at the local store level, human resource costs are higher but sales also increase because the merchandise and services are tailored to meet the needs of II markets. Retailing View 5.2 illustrates how all of the elements of the human resource strategy, including the organization structure, are used to reinforce PETsMART's strategy.

PETsMART hires caring pet groomers and trainers to offer complementary services to pet owners in one convenient location.
PETsMART's HR Practices Support Its Retail Strategy

When PETsMART launched its concept for a pet supply category killer in 1988, it followed the lead of other category killers and emphasized its low prices, broad product assortment, limited customer service, and warehouse atmosphere. But it discovered that pet owners wanted more. They viewed their pets as part of the family, not just animals that needed to be fed. They wanted to be good "pet parents" and deal with a company that was as concerned about their pets' health and well-being as they were. Thus, PETsMART undertook a strategy to reposition its brand from category killer to a caring and trusted source of products and service for pets and trainers to offer complementary employees services to pet owners in one convenient location.

To implement this new positioning, PETs MART started to provide some new services in the stores such as pet styling, veterinary services, and training classes. Rather than hire veterinarians, PETs MART arranged to have the clinics operated by Banfield, The Pet Hospital, a trusted source of "human"-quality medical care for pets. PETsMART also decided to provide facilities and space for shelters to make homeless pets available rather than sell dogs and cats. Finally, the company changed its marketing communications to be less price oriented and more service driven, with all messages highlighting that pets are as welcome in the store as the rest of their family is. Promotional tie-ins with major animal shelters and pet rescue services became major focal points nationally and at the local store level.

PETsMART also recognized that its employees would play a crucial role in the development of a new brand image. Its frontline employees have to understand and accept the brand's values and the promise the brand is making to its customers. To develop these values in its employees, PETsMART changed the criteria it used for selecting sales associates. The company no longer looks for people who could just stock the shelves; it now hire people who have a deep love for dogs or cats or tropical fish. The groomers in its styling salons love making a pet look beautiful. To develop its employees, PETsMART provides extensive training so that the store employees can become even more knowledgeable about the pets with whom they work.

5.3.2 Organization of a Single-Store Retailer

Initially, the owner-manager of a single store may be the entire organization. When he or she goes to lunch or heads home, the store closes. As sales grow, the owner-manager hires employees. Coordinating and controlling employee activities is easier in a small store than in a large chain of stores; the owner-manager simply assigns tasks to each employee and watches to see that these tasks are performed properly. Because the number of employees is limited, single-store retailers have little specialization. Each employee must perform a wide range of activities, and the owner-manager is responsible for all management tasks.

Exhibit 5.4 Organization Structure for a Small Retailer

As sales continue to increase, specialization in management may occur when the owner-manager hires additional management employees. Exhibit 5.4 illustrates the common division of management responsibilities into merchandise and store management. The owner-manager continues to perform strategic management tasks. The store manager may be responsible for administrative tasks associated with receiving and shipping merchandising and managing the employees. The merchandise manager or buyer may handle the advertising and promotion tasks, as well as merchandise selection and inventory management tasks. Often the owner-manager contracts with an accounting firm to perform financial control tasks for a fee.

Refact
Over 95 percent of all U.S. retailers own and operate a single store, but single-store retailers account for less than 50 percent of all retail store sales.

Refact
Mellerio dits Meller, the French Jeweler founded in 1591, is one of the oldest family-owned retail chains still operating.

5.3.3 Organization of a National Chain Store

Compared with the management of a single store, managing a national retail chain is much more complex because managers must supervise units that are geographically distant from one another. In this section, we use JCPenney to illustrate the organization of a national, multi-channel retail company.
Traditionally, retail businesses were family owned and managed. The organization of these firms was governed by family circumstances. Executive positions were designed to accommodate family members involved in the business. Then, in 1927, Paul Mazur proposed a functional organization plan that has been adopted by most retailers. The organization structures of retail chains continue to reflect principles of the Mazur plan, such as separating buying and store management tasks into different division.

Exhibit 5.5 shows JCPenney's corporate organization. Most retail chains such as The Gap, Home Depot, and Best Buy have similar organization structures. Vice presidents responsible for administrative tasks, merchandise management, and store operations report to the chairperson/CEO. Most managers and employees in the store operations area work in stores. Merchandise, planning, marketing, finance, visual merchandising, information systems, and human resource managers and employees work at corporate headquarters.
The Chief Operating Officer (COO) is responsible for managing managers and sales associates in more than 1,000 JCPenney's stores across the United States. In addition, the COO manages the supply chain activities that ship merchandise to the stores, as well as store design, visual merchandising, and store construction.

The President and Chief Merchandising Officer is responsible for developing merchandising strategies, buying and pricing merchandise, determining what merchandise is allocated to specific stores, coordinating relationships with vendors, and designing and sourcing private-label merchandise. Some of JCPenney's private-label brands include Hunt Club, Stafford, Worthington, Arizona, St. John's Bay, and Chris Madden.

In addition to the merchandise management staff, the Chief Marketing Officer responsible for JCPenney's brand-building and advertising programs and the President of JCPenney Direct report to the President and Chief Merchandising Officer. The President of JCPenney Direct is responsible for Penney's catalog and Internet channels, which generate over $2.7 billion in annual sales. The President of JCPenney Direct receives reports from both merchandise management and operations staff. To be an effective multi-channel retailer, JCPenney closely coordinates the merchandise and operations of its two direct channels with its stores.

5.3.4 Merchandise Management.

The merchandise division is responsible for procuring the merchandise sold in the stores and ensuring that the quality, fashionability, assortment, and pricing of that merchandise are consistent with the firm's strategy. Exhibit 5.6 shows a detailed organization structure of JCPenney's merchandise management, with a separate merchandise management structure for catalog/Internet. This exhibit provides a more detailed view of Merchandise Management in the left column of Exhibit 5.5.
Exhibit 5.6 JCPenney Store Merchandising

The buyer, allocator, and planner for each merchandise category form a merchandise action team (MAT) that is responsible for managing the merchandise category. Basically, it has the profit and loss responsibility for "running a business" associated with the merchandise category. Team members sit near another in an open office environment.
with a convenient conference table so they can exchange formation easily and make inventory management decisions.

Although MATs are given considerable autonomy to "run their own business," they must adhere to an inventory budget that varies from season to season. The budget is the result of a negotiation among the team and its superiors, divisional and general merchandise managers, planners, and allocators.

Exhibit 5.7 provides even more detail to describe how the buying function is organized by product category in a typical department store. This organization chart does not reflect the organization of JCPenney's merchandising area.

**Buyers** - Buyers are responsible for procuring merchandise and building and maintaining relationships with vendors. They attend trade and fashion shows and negotiate with vendors on prices, quantities, assortments, delivery dates, and payment terms. In addition, they might specify private-label merchandise request modifications to tailor the merchandise to the retailer's target market and differentiate it from competitive offerings.

**Allocators** - Traditionally, buyers were also responsible for developing merchandise budget plans, monitoring the financial performance of the merchandise category, determining the assortment stocked in each store, allocating merchandise to the stores, monitoring sales, and placing reorders. Giving this responsibility solely to buyers meant that the merchandise strategy within a store might not be coordinated. For example, some buyers might allocate more expensive merchandise to a store in high-income areas, but others wouldn't make this adjustment.

To address these problems, most retail chains created merchandise allocators, with a senior executive of planning and allocation, at the same level as the merchandise managers in the buying organization. Each merchandise allocator is responsible for allocating merchandise and tailoring the assortment in several categories for specific stores in a geographic area. For example, the planner at The Limited would alter the basic assortment of sweaters for the different climates of south Florida and the Pacific Northwest.

**Planners** - JCPenney has divided the traditional activities performed by buyers by including planner position. The planner is responsible for financial planning and analysis of the merchandise category. Planners develop the merchandise budget plan and monitor performance with respect to the plan for several merchandise categories.
Exhibit 5.7 Buying Organization at Typical Department Store Chain

Buying in Supermarkets - In recent years, the buyer's role in supermarket chains has evolved into a category manager. Traditional supermarket buyers were vendor focused. For example, they would be responsible for buying merchandise only from a specific vendor, such as Campbell or Kraft. They developed close relationships with vendors and were more concerned with maintaining these vendors relationships than selling products to customers. This focus was partially caused by evaluation systems that rewarded supermarket buyers more for securing price discounts than for sales, gross margins, or inventory turns.

Category Managers - Category Managers are responsible for a set of products that are viewed as substitutes by customers. For example, a category manager might be in charge of all pastas-fresh, frozen, package~ or canned. Category managers are evaluated on the
profitability of their category and thus are motivated to eliminate "me-too" products and keep essential niche products. Note that buyers in most other types of retail firms have always been responsible for merchandise categories. Thus, the term *category manager* is used primarily by supermarket retailers.

### 5.3.5 Store Operations

At JCPenney, managers responsible for regions of the country report to the Director of Stores. District managers report to the regional managers, and store managers report to the district managers. The managers responsible for loss prevention, real estate, and styling salons also report to the Director of Stores.

Exhibit 5.8 shows the organization chart of a JCPenney store. Store managers in large stores have an assistant manager, department managers, and loss prevention and visual merchandise managers. The senior department managers and shoe and jewelry managers manage their sales associates and the presentation of merchandise in their areas of the store. The senior visual manager is responsible for the presentation of the merchandise in the store. The assistant store manager is responsible for selecting, training, and evaluating employees; the catalog and Internet kiosk areas; customer service activities, such as
returns, complaints, and gift wrapping; the receiving, shipping, and storage areas of the store; and the styling salon.

5.4 RETAIL ORGANIZATION DESIGN ISSUES

Two important issues in the design of a retail organization are (1) the degree to which decision making is centralized or decentralized and (2) the approaches used to coordinate merchandise and store management. The first issue translates into whether the decisions concerning activities such as merchandise management, information and distributions systems, and human resource management are made by regional, district, or store managers or by managers in the corporate headquarters. The second issue arises because retailers divide merchandise and store management activities into different organizations within the firm. Thus, they need to develop ways to coordinate these interdependent activities.

5.4.1 Centralization versus Decentralization

Centralization is when authority for trailing decisions is delegated to corporate managers rather than to geographically dispersed managers; decentralization is when authority for retail decisions is assigned to lower levels in the organization. JCPenney is an example of a retail corporation that has migrated from geographically decentralized decision making to centralized decision making. Now most retailing management decisions are made by corporate managers.

Retailers reduce costs when decision making is centralized in corporate management. First, overhead falls because fewer managers are required to make the merchandise, human resource, marketing, and financial decisions. For example, Federated Department Stores operates four regional Macy's department store chains-Florida, Central, East, and West-plus the Bloomingdale's chain. Thus, it has six women's blouse buyers (four in the Macy's regional offices, one for Bloomingdale's, and a corporate buyer coordinating the regional chains and buying private-label blouses). In contrast, JCPenney has one buyer for women's blouses at the corporate headquarters. Centralized retail organizations can similarly reduce personnel in administrative functions such as marketing, real estate, information systems, and human resources.

Second, by coordinating buying across geographically dispersed stores, the company can achieve lower prices from suppliers. The retailer can negotiate better purchasing terms by placing one large order rather than a number of smaller orders.

Third, centralization provides an opportunity to have the best people make decisions for the entire corporation. For example, in a centralized organization, people with the greatest expertise in areas such as management information systems (MIS), buying, store design, and visual merchandise can have all stores benefit from their skills.
Fourth, centralization increases efficiency. Standard operating policies are used for store and personnel management; these policies limit the decisions made by store managers. For example, corporate merchandisers do considerable research to determine the best method for presenting merchandise. They provide detailed guides for displaying merchandise to each store manager so that all stores look the same throughout the country. Because they offer the same core merchandise in all stores, centralized retailers can achieve economies of scale by advertising through national media rather than more costly local media.

Although centralization has advantages in reducing costs, its disadvantage is that it makes it more difficult for a retailer to adapt to local market conditions. For example, Gainesville is located in central Florida, and thus, the manager in charge of the fishing category at the Sports Authority corporate office might think that the Gainesville store customers primarily engage in freshwater lake fishing. But the local store manager knows that most of his customers drive 90 miles to go saltwater fishing in either the Gulf of Mexico or the Atlantic Ocean.

In addition to problems with tailoring its merchandise to local needs, a centralized retailer may have difficulty responding to local competition and labor markets. Since pricing is established centrally, individual stores may not be able to respond quickly to competition in their market. Finally, centralized personnel policies may make it hard for local managers to pay competitive wages in their area or hire appropriate types of salespeople.

However, centralized retailers are relying more on their information system to react to local market conditions. For example, American Drug Stores buyers at the division's headquarters use data collected by point of-sale terminals to understand local conditions. Most drugstore chains are cutting back on the space devoted to automotive supplies, but American Drug sales data indicated that people in the inner city are more likely to change their own oil, so it maintains its automotive supply offering in these stores. By looking at buying patterns across a large number of stores, the centralized buyer might uncover opportunities that local managers would not see.

5.4.2 Coordinating Merchandise and Store Management

Small independent retailers have little difficulty coordinating their stores' buying and selling activities. Owner-managers typically buy the merchandise and work with their salespeople to sell it. In close contact with customers, the owner-managers know what their customers want.

In contrast, large retail firms organize the buying and selling functions into separate divisions. Buyers specialize in buying merchandise and have limited contact with the store management responsible for selling it. While this specialization increases buyers' skills and expertise, it makes it harder for them to understand customers' needs. Three approaches large and sales associates retailers use to coordinate buying and selling are (1)
improving buyers' appreciation for the store environment, (2) making store visits, and (3) assigning employees to coordinating roles.

This buyer frequently visits stores to get feedback from customers and sales associates.

**Improving Appreciation for the Store Environment** - Fashion-oriented retailers use several methods to increase buyers' contact with customers and improve informal communication between buyers and the store personnel who sell the merchandise they buy. Management trainees, who eventually become buyers, are required by most retailers to work in the stores before they enter the buying office. During this 6-10-month training period, prospective buyers gain appreciation for the activities performed in the stores, the problems salespeople and department managers encounter, and the needs of customers.
Making Store Visits - Another approach to increasing customer contact and communication is to have buyers visit the stores and work with the departments for which they buy. At Wal-Mart, all managers (not just the buyers) are required to visit stores frequently and practice the company philosophy of CBWA (coaching by wandering around). Managers leave corporate headquarters in Bentonville, Arkansas, on Sunday night and return to share their experiences at the traditional Saturday morning meetings. This face-to-face communication provides managers with a richer view of store and customer needs than they could get from impersonal sales reports from the company's management information system. Spending time in the stores improves buyers' understanding of customer needs, but this approach is costly because it reduces the time the buyer has to review sales patterns, plan promotions, manage inventory, and locate new sources of merchandise.

Assigning Employees to Coordinating Roles - Some retailers, like JCPenney, maintain people in the merchandise division (planners and allocators who work with buyers) and stores who are responsible for coordinating buying and selling activities. Many national retail chains have regional and even district personnel to coordinate buying and selling activities. For example, Target's regional merchandise managers in Chicago work with stores in the north-central U.S. region to translate plans developed by corporate buyers into programs that meet the regional needs of consumers. In addition to developing an organization structure, HR management undertakes a number of activities to improve employee performance, build commitment among employees, and reduce turnover.
Sam Walton, founder of Wal-Mart, symbolized Wal-Mart’s corporate culture of providing value to customers by controlling costs.

5.5 REVIEW QUESTIONS

1. Why is human resource management more important in retailing than in manufacturing firms?

2. Describe the similarities and differences between the organization of small and large retail companies. Why do these similarities and differences exist?

3. Some retailers have specific employees (merchandise assistants) assigned to restock the shelves and maintain the appearance of the store. Other retailers have sales associates perform these tasks. What are the advantages and disadvantages of each approach?

4. How can national retailers like Best Buy and Victoria's Secret, which both use a centralized buying system, make sure that their buyers are aware of the local differences in consumer needs?

5. What are the positive and negative aspects of employee turnover? How can a retailer reduce the turnover of its sales associates?
MOTIVATION, COMMITMENT AND ISSUES IN RETAIL HUMAN RESOURCE MANAGEMENT

Structure
6.1 Motivating Retail Employees

   6.1.1 Policies and Supervision
   6.1.2 Incentives
   6.1.3 Organization Culture
   6.1.4 Developing and Maintaining a culture
   6.1.5 Case Study

6.2 Building Employee Commitment

   6.2.1 Developing Skill
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6.3 Issues in Retail Human Resource Management

   6.3.1 Managing Diversity
   6.3.2 Legal and Regulatory Issues in Human Resource Management
   6.3.3 Use of Technology

6.4 Review Questions

6.1 MOTIVATING RETAIL EMPLOYEES

A critical task of human resource management is to motivate employees to work toward achieving the firm's goals and implementing its strategy. This task is often difficult because the employees' goals may differ from those of the firm. For example, a sales associate might find it more personally rewarding to arrange a display creatively than to help a customer. Retailers generally use three methods to motivate their employees' activities: (1) written policies and supervision, (2) incentives, and (3) organization culture.

6.1.1 Policies and Supervision

Perhaps the most fundamental method of coordination is:
(1) To prepare written policies those indicate what employees should do, and
(2) To have supervisors enforce these policies.
For example, retailers may set policies about when and how merchandise can be returned by customers. If employees use the written policies to make these decisions, their actions will be consistent with the retailer's strategy. But strict reliance on written policies also can reduce employee motivation because employees have little opportunity to use their own initiative to improve performance of their areas of responsibility. As a result, they eventually might find their jobs uninteresting.

Relying on rules as a method of coordination leads to a lot of red tape. Situations will arise that aren't 'covered by a rule, in which case employees will need to talk to a supervisor or wait for a new policy before they can deal with a new situation.

### 6.1.2 Incentives

The second method of motivating and coordinating employees uses incentives to encourage them to perform activities consistent with the retailer's objectives. For example, buyers will be motivated to focus on the firm's profits if they receive a bonus based on the profitability of the merchandise they buy.

**Types of Incentive Compensation** - Two types of incentives are commissions and bonuses. A commission is compensation based on a fixed formula, such as 2 percent of sales. Many retail sales people's compensation is based on a fixed percentage of the merchandise they sell.

A bonus is additional compensation awarded periodically on the basis of an evaluation of the employee's performance. For example, store managers often receive-bonuses at the end of the year based on their store's performance relative to its budgeted sales and profits. Chapter 17 details the advantages and disadvantages of compensation plans compared with other non-financial incentives like recognition and promotions.

In addition to incentives based on individual performance, retail managers often receive income based on their firm's performance. These profit-sharing arrangements can be offered as a cash bonus based on the firm's profits or a grant of stock options that link additional income to the performance of the firm's stock.

Retailers such as Starbucks, Wal-Mart, and Home Depot use stock incentives to motivate and reward all employees, including sales associates. Employees are encouraged to buy shares in their companies at discounted prices through payroll deduction plans. These stock incentives align employees' interests with those of the company and can be very rewarding when the company does well. However, if growth in the company's stock price declines, employee morale declines too, corporate culture is threatened, and demands for higher wages and more benefits develop.

**Drawbacks of Incentives** - Incentives are very effective at motivating employees to perform the activities on which the incentives are based. But incentives also may cause employees to ignore other activities. For example, salespeople whose compensation is based entirely on their sales may be reluctant to spend time restocking the fixtures and
shelves. Excessive use of incentives to motivate employees also can reduce employee commitment. Company loyalty falls because employees feel that the firm hasn't made a commitment to them (since it's unwilling to guarantee their compensation). Thus, if a competitor offers to pay a higher commission rate, they'll feel free to leave.

**Refact**
The late Mary Kay Ash, founder of Mary Kay Cosmetics, was fond of saying, "There are two things that people want more than sex and money--recognition and praise."

**Refact**
Until recently, Japanese companies were not permitted to issue their stock as compensation.

**Refact**
An employee who paid $1,650 for 100 shares of Wal-Mart stock when the company went public in 1970 would now own stock worth over $5 million.

### 6.1.3 Organization Culture

The final method for motivating and coordinating employees is to develop a strong organization culture. An organization culture is the set of values, traditions, and customs of a firm that guides employee behavior. These guidelines aren't written down as a set of policies and procedures; they are traditions passed along by experienced employees to new employees.

Many retail firms have strong organization cultures that give employees a sense of what they ought to do on their jobs and how they should behave to be consistent with the firm's strategy. For example, Nordstrom's strong organization culture emphasizes customer service, whereas Wal-Mart's focuses on reducing costs so the firm can provide low prices to its customers.

An organization culture often has a much stronger effect on employees' actions than do rewards offered through compensation plans, directions provided by supervisors, or written company policies. Nordstrom emphasizes the strength of its organization culture in the policy manual given to new employees. The manual has one rule: Use your best judgment to do anything you can to provide service to our customers. Lack of written rules doesn't mean that Nordstrom employees have no guidelines or restrictions on their behavior; rather, its organization culture guides employees' behavior. New salespeople learn from other employees that they should always wear clothes sold at Nordstrom, that
they should park their cars at the outskirts of the parking lot so customers can park in more convenient locations, that they should approach customers who enter their department, that they should accept any merchandise returned by a customer even if the merchandise wasn't purchased at a Nordstrom store, and that they should offer to carry packages to the customer's car.

6.1.4 Developing and Maintaining a Culture

Organization cultures are developed and maintained through stories and symbols. Values in an organization culture are often explained to new employees and reinforced to present employees through stories. For example, Nordstrom's service culture is emphasized by stories describing the "heroic" service undertaken by its salespeople. Salespeople will relate how a fellow salesperson went across the mall and bought a green, extra-large Ralph Lauren/Polo shirt for a customer who was upset because Nordstrom didn't have the shirt in his size. Department sales managers encourage storytelling by holding contests in which the salesperson with the best hero story for the week wins a prize.

The Container Store emphasizes the importance of add-on sales using the "man in the desert" story. A man crawling through the desert, gasping for water, is offered water by a retailer at the oasis. But if The Container Store were at the oasis, the salesperson would have said, "Here's some water, but how about some food? I see you're wearing a wedding ring. Can we call your family to let them know you are here?"

Using symbols is another technique for managing organization culture and conveying its underlying values. Symbols are an effective means of communicating with employees because the values they represent can be remembered easily. Wal-Mart makes extensive use of symbols and symbolic behavior to reinforce its emphasis on controlling costs and keeping in contact with its customers. Photocopy machines at corporate headquarters have cups on them for employees to use to pay for any personal copying. At the traditional Saturday morning executive meeting, employees present information on the cost-control measures they've recently undertaken. Managers, who have been traveling, in the field report on what they've seen, unique programs undertaken in the stores, and promising merchandise. Headquarters are Spartan. Founder Sam Walton, one of the world's wealthiest people before he died, lived in a modest house and drove a pickup truck to work.
Sam Walton, founder of Wal-Mart, symbolized Wal-Mart's corporate culture of providing value to customers by controlling costs.
Disney strengthens its organization culture through the labels it uses for its employees and by steeping employees in the culture during the selection process. Management and employees view themselves as part of a team whose job is to produce a very large show. Applicants are trying out for a role in the cast rather than being hired for a job. For hourly jobs, the casting director (the person in charge of recruiting) interviews applicants to determine if they can adapt to the company's strong organizational culture. Do they understand and accept the fact that Disney has strict grooming requirements (no facial hair for men, little makeup for women)? Is the applicant willing to work on holidays? After the initial screening, the remaining applicants are judged on how well they might fit in with the show. Current employees participate in the entire process; they assess the applicant's behaviors and attitudes while providing firsthand information about their role in the "production."

6.1.5 Case Study

Starbucks Corporation: Case Study in Motivation and Teamwork

Starbucks Corporation, the most famous chain of retail coffee shops in the world, mainly benefits from roasting, selling special coffee beans and various kind of coffee or tea drinks. It owns about 4000 branches in the whole world. Moreover, it has been one of the rapidest growing corporations in America as well. The reasons of why Starbucks is worldwide popular are not only the quality of coffee, but also its customer service and cozy environment. Starbucks establishes comfortable surroundings for people to socialize with a fair price, which attracts all range of ages’ consumers to get into the stores. Besides, it is also noted for its satisfaction of employees. The turnover rate of employees at Starbucks was 65% and the rate of managers was 25% a year However, the rates of other national chain retailers are 150% to 400% and 50% respectively. Compared with them, the turnover rate of Starbucks is much lower than other industries on averagely. (Michelle, 2006) As a result, Starbucks would be one of the optimal business models for the strategies of employee motivation, customer satisfaction and cooperation of teamwork.

In the first stage, the historical background of Starbucks will be introduced. Secondly, issues about the methods of motivating employees are going to discuss. Next, the strategies, which are used by Starbucks to make their teamwork performance well, will be pointer out. In the end, there is a conclusion about the effect of policies in motivation and teamwork.

The history of Starbucks

Starbucks began by three friends, Jerry Baldwin, Zev Siegl, and Gordon Bowker, who knew each other in the University of Seattle. In 1971, the first name of their store is “Starbucks Coffee, Tea, and Spice” in Seattle, Washington’s Pike Place Market. They engaged in making profit from selling coffee beans roasted to individual customers and restaurants. Until 1982, they had increased the number of stores to four. During the same
period, a sales representative of the house ware business in New York, Hammerplast, visited them. Howard Schultz wanted to know why a small company needs a large number of percolators from Hammerplast. Because of the trade relationship between these two companies, he was acquainted with the three inventors. After he realized the atmosphere and environment of the company, he decided to be a part of Starbucks, then as a director of marketing and retail sales.

In the following year, he had a vocation to Milan, Italy. Though the time, he experienced an entirely different coffee culture from the United States. The culture of Italian café had been one part of people’s daily life. There were numerous coffee bars around the area and the public usually liked to socialize in a coffee bar. Under those circumstances, Schultz had an idea of a new flavor of café and a stylish environment to communicating with friends.

After the trip, he prepared the business plan for his vision. However, the three initiators did not want to transfer their business into restaurant industry. Consequently, in 1985 he chose to establish a new coffee shop, named II Giornale, in Seattle. After the next two years, due to the successful strategy of Schultz, the original three owners of Starbucks decided to sell their corporation to Schultz. Then Schultz gathered other investors and took over the name of II Giornale to Starbucks. He sought to pursue his dream to make everyone taste his coffee, so he focused on the rate of expanding. At that time, he though that the most efficient way to grow the amount of branches is to set up new stores in other places. In 1987, Starbucks had the first overseas store in Japan.

In the subsequent years, owing to the rising expenses with the worldwide broadening, there was a deficit in Starbucks for the next three years. In contrast, he firmly believed that not to “sacrifice long-term integrity and values for short-term profit” (Michelli, 2006). In 1991, it turned loss into gain and its sales grew up sharply to 84 percent. Until the end of 2002, Starbucks has developed from 17 stores to 5,688 spreading over 30 countries in by this strategy, it is an over 300 times growing in these ten years! From Fortune magazine, Starbucks was ranked the 11th best company to work for in 2005 in the USA and then risen up in 2006 to 29th. As to 2007, it was ranked as the 16th best. In the same year, Starbucks was also voted as one of the top ten UK workplaces by the Financial Times. (Resource: wikipedia)
Motivation

Motivation is a vital factor for business in the process of making their production. Labors are not working machine, so that they can not always do the same affairs with equal passion. Accordingly, the efficient method to make staffs keen on their jobs should be to motivate them. It might even gain a better yield than purchasing plenty of equipments and facilities.

However, to be contrary to the classical management approaches, some reports had proposed that the ways to motivate employees are not only money. Kohn (1993) showed a survey that if a reward frame only offers physical rewards, the produce from workers might decline, especially in the creativity industries. What is more, other factors are essential as well, such as working environment or relationship between employees and managers. Nicholson (1998) reported that “workers had strong social needs which they tried to satisfy through membership of informal social groups at work place”. Besides, “the importance of informal social factors in the work place such as co-worker relationships and group norms that influence employee motivation and performance is highlighted” (Macky & Johnson, 2003).

A pervious researcher, Pugh & Hickson (1989) cited Elton Mayo (1933) made an investigation called ‘Hawthorne Experiment’. According to the results, if managers
provided a suitable working environment considering each personal requirement and their sense of satisfaction rather than a higher salary or bonus, workers were encouraged to be more hard-working and efficient. He also verified that if managers of an organization do not consider about individual works’ needs and wants, then treat them as equal units would “maximize payment and minimize effort”. As a result, how to use non-financial incentives would be an important issue for nowadays business.

The chief executive officer of Starbucks corporation, Howard Schultz, considers that the tip of success in Starbucks is not coffee but employees. Constantly accumulating the working experience of employees and providing chances of promotion in a company for working partners is the way to operate sustainability. He firmly believes that the spirit of Starbucks is employees and feels honored about the value of Starbucks employees. For this reason, it is necessary to have a perfect education and training policy for better performance in a company (Michelli, 2006). Starbucks offers an interactive structure that makes personnel instill themselves into their job; hence they can motivate partners to satisfy themselves then achieving a new level of performance.

Equal treatment

The managers in Starbucks treat each workpeople equally and all of the staffs are called ‘partners’, even the supervisors of each branch are called it as well. In order to narrow the gap between managers and employees, they also co-work with the basic level staffs in the front line. Due to this, they can maintain a well management system and create a much closer and more familiar atmosphere than other place, which makes not only employees can enjoy their job but also customers are affected by their enthusiasm.

Listen to Employees - Starbucks has a well-organized communication channel for employees. It places a great importance on labors. For example, managers plan the working hours per workers and arrange the schedule of time off, according to their wants to meet their requirements. There are interviews weekly to see what employees’ need is. A special survey called ‘Partner View Survey’ is taken off approximate every two years. The managers can receive feedbacks through the event to which part should be improved or what issue should be paid more attention to.

The partners have the right to figure out what is the best policy for them, and the directors show a respect for each suggestion. Starbucks even wants every employee to join in making and developing plans, then achieving their goals all together. As a result, the policies and principles are communicated between all staffs, and there is no limitation in employees’ personal opinions. For this reason, business could improve their strategies even innovate by different ideas.

Good welfare measures - All employees, including informal personnel, are offered a great deal of welfare policies, for instance, commodities discounts for employees, medical insurance (including health, vision and dentil) and vacations. Moreover, the partners who work over 20 hours a week are entitled for benefits. Starbucks also thinks
that debt financing is not the best choice, thus it chose allocate stock dividend to all employees with a free scrip issue. By this policy, the employees can get benefits from the dividends of company. Because of this, they have the same goal; in other words, they are motivated to increase the sales to earn more profits. Starbucks just handles personnel with its core value, which is the employees are the most important asset of Starbucks. Showing a respect to employees and well-developed environment have lead Starbucks to produce the best working quality for customers and an increase in profits.

**Teamwork**

Teamwork can not only construct a small social structure in organization for employees to socialize, but also composite of various kind of members who equip with different background of skill and knowledge on account of the mission. Each member plays an important role in the teamwork; therefore everyone in that team can meet their need for getting acquainted with different colleagues and learn new skill from each other. Hoegl & Gemuenden (2001) observed that the definition of teamwork is a social system including more than three people in an organization or context. These members identity others as one member of the team and they have the same goal. Robbins (2001) stated that the factors influencing teamwork are relation of leadership, roles, principles, status, size, composition and the power of agglomerate.

**The strategies to keep well relationship** - Starbucks establishes a well-developed system to keep good relationship between mangers and employees. At first, the leaders of a retail shops use the same title "partner" as a basic level worker to narrow the gap of bureaucracy. Furthermore, they co-work in the first line to eliminate the distance between different statuses. Secondly, the numbers of employees are usually from three to six. Such a small size of a retail shop makes staffs acquaint with each other easily and deeply. In the co-working period, this helps a team to match different personalities and majors quickly to achieve well performance. Next, the suggestions and complaints provided by employees are treated of equal importance. In the same way, they have a right to participate in the process of revising company policies as well as a manager. In that case, each staff thinks that they also play an important role in company operating, and they can join to work out a direction of Starbucks. These give employees not only a respect, but a sense of participation.

**A goal of public welfare** - Starbucks has endeavored to create “third place” (outside from home or office) for people to take a rest (resource: wikipedia). They want to provide such a comfortable environment to increase the harmoniousness of the society. Apart from this, Starbucks contributes part of its profits to public service; on the other hand, it also set a goal to improve and donate to the society. As a consequence, the aim makes all staffs have an idea that what they do for Starbucks is for the society as well. As the goal theory, Starbucks set a challenging and specific goal, and it permits all partners to decide the direction. Afterward, employees embrace to do what they chose and they get some feedbacks form the goal. The concept causes an increase of the power of agglomerate and enthusiasm in relation with a positive effect to the profit of Starbucks.
Conclusion

Starbucks changes the behaviors and view points of global consumers to coffee, and this successful example has caught global attention. Nevertheless, it was also a small retail coffee shop in North American initially. Nowadays, it is not only one of the fastest growing corporation, but also an outstanding business model with lower employee turnover rate and higher profit performance. According to the case of Starbucks, it shows that motivation is the key factor of a company policy; in other words, opposite to the principles of classical management which only concerns about produce but ignore workers’ ideas. In recent successful businesses, the appropriate management for labors should include financial and emotional rewards. Besides, motivation and personal satisfaction should be put into first rank. A good relationship between managers and employees could maintain a high quality of performance. Just like Starbucks, to use the correct strategy would lead to a successful path.

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6.2 BUILDING EMPLOYEE COMMITMENT

As mentioned previously, an important challenge in retailing is to reduce turnover. High turnover reduces sales and increases costs. Sales are lost because inexperienced employees lack the skills and knowledge about company policies and merchandise to interact effectively with customers; costs increase due to the need to continually recruit and train new employees. Retailing View 6.1 illustrates how IKEA has built a committed workforce.
Consider what happens when Bob Roberts, meat Compartment manager in a supermarket chain, leaves the company. His employer promotes a meat manager from a smaller store to take Bob's position, promotes an assistant department manager to the position in the smaller store, promotes a meat department trainee to the assistant manager's position, and hires a new trainee. Now the supermarket chain needs to train two meat department managers and one assistant manager and hire and train one trainee. The estimated cost for replacing Bob Roberts thus is almost $10,000.

Creating an environment of mutual trust and commitment enhances employee loyalty and performance

To reduce turnover, retailers need to build an atmosphere of mutual commitment in their firms. When a retailer demonstrates its commitment, employees respond by developing loyalty to the company. Employees improve their skills and work hard for the company
when they feel the company is committed to them over the long run, through thick and thin. Some approaches that retailers take to build mutual commitment are as follows:
(1) Developing employee skills through selection and training,
(2) Empowering employees, and
(3) Creating a partnering relationship with employees.
Research indicates that engaging in these human resource management practices increases the firm's financial performance.

**Refact**
The voluntary annual turnover in the retail industry is 31.4 percent, but among hourly retail employees, it approaches 100 percent per year.

### 6.2.1 Developing Skills

Two activities that retailers undertake to develop knowledge, skills, and abilities in their human resources are selection and training. Retailers that build a competitive advantage through their human resources are very selective in hiring people and make significant investments in training.

**Selective Hiring** - The first step in building a committed workforce is recruiting the right people. Singapore Airlines, one of Asia's most admired companies, is consistently ranked among the top airlines in terms of service quality. Since its flight attendants are the critical point of contact with its customers, senior management is personally involved in their selection. Only 10 percent of the applicants make it through the initial screen, and only 2 percent are eventually hired.

The job requirements and firm strategy dictate the type of people hired. Simply seeking the best and the brightest often may not be the most effective approach. For example, at Recreational Equipment Inc. (REI), a category specialist in outdoor gear, the motto is "You live what you sell." Outdoor enthusiasts are hired as sales associates so they can help customers and serve as a resource for the buying staff.

**Training** - Training is particularly important in retailing because more than 60 percent of retail employees have direct contact with customers, which means they are responsible for helping customers satisfy their needs and resolve their problems: A key to the success of the Men's Wear house is how it treats its employees and its emphasis on training. All wardrobe consultants and store managers go through a five-day training program at "Suits University," the company's 5,000 square foot training center in Fremont, California. The training program emphasizes "clientling," a process designed to foster a strong relationship between the wardrobe consultants and their customers. Periodically, experienced store personnel come back to the training center for three- and four-day retraining sessions. The employee commitment Men's Wear house builds through its training investment is reflected in its low inventory shrinkage rate. Its employees watch out for the company: They don't steal, and they stop others from shoplifting.
RETAILING VIEW 6.1

The IFKA Way
When IKEA announces the opening of a store, job candidates line up outside the store for a chance to work for this retailer that is keenly interested in the development and well-being of its employees. New management hires start their jobs with paid health insurance coverage, life insurance, and three weeks paid leave during their first year. Many employees find themselves, for the first time, eligible for long- and short-term disability pay. While only 15 percent of the part-time retail employees in this industry have health benefits, all of IKEAs do.

Store managers and sales assistants all dress in the same uniform, and executive perks are shunned. To keep management positions "within the IKEA family," the company has begun its own personnel development program called "Paddle Your Own Canoe," in which workers sit down with their bosses and plot out their future with the company. Employees make plans to be .become store managers, and if they need more education, the company reimburses their tuition. Some employees elect to take special training courses to earn certificates in the practical mastery of subjects such as driving a forklift. And then there is the cafeteria, where employees can get anything on the menu for $2.

IKEA supports its employees. When Pernille Spiers-Lopez, CEO of IKEA North America, hires a "coworker," as IKEA terms its employees, her plan is to help the person through his or her slumps. One of her greatest rewards is .10 see a worker she has worked with excel, and she believes all supervisors and managers should serve as mentors. 'It's easy to be committed to the coworker who's doing great," she said. "The [real] commitment is when she's struggling. When I hire you, I am there until you don't want to do it anymore."

A key part of her job is to convince her managers to find ways to match their stores' needs with those of employees, using flexible work schedules, job sharing, compressed work weeks, and other techniques. IKEA North America routinely surveys employees to gauge morale and spot issues that need to be addressed.

The company's philosophy seems simple enough: Workers tend to be more productive and engaged in what they do when their basic needs are taken care of. IKEA. As grateful employees, in return, are committed to making their career working for IKEA. IKEA. As profit margin is estimated at 6 percent, almost double the margin of other furniture retailers, and its turnover is the lowest in the retail category.

Investing in developing employee skills tells employees that the film considers them important. In response to the difficulty of finding qualified service workers, Marriott has made a considerable investment in recruiting and training entry-level workers. The training goes beyond the basics of doing the job to include grooming habits and basic business etiquette, like calling when you can't come to work. Employees involved in this program have a strong commitment to Marriott. For example, Sara Redwell started working at Marriott as a housekeeper after emigrating from Mexico. She's now a housekeeping manager supervising 20 employees and mentoring other Mexican immigrants. "What Marriott gave to me, I want to give to others," she says. Tom Lee, a bartender at the Seattle Marriott, proudly proclaims, "Every day I put on this uniform just like an NBA player." Walgreen's, Wal-Mart, and T. J. Maxx also have active programs for hiring people who do not possess entry-level skills. Retailing View 6.2 illustrates how Starbucks creates strong commitment among its employees.

**Refact**
Across the world each day, Starbucks opens four stores and hires 200 employees.

**Refact**
Averaging only seven hours per employee per year, the retail industry spends less time on training than all other industries.

### 6.2.2 Empowering Employees

**Empowerment** - Empowerment is a process in which managers share power and decision-making authority with employees. When employees have the authority to make decisions; they are more confident in their abilities, have greater opportunity to provide service to customers, and are more committed to the firm’s success.

The first step in empowering employees is reviewing those employee activities that require a manager's approval. For example, Parisian, a regional department store chain owned by Saks, changed its check authorization policy, thereby empowering sales associates to accept personal checks of up to $1,000 without a manager's approval. Under the old policy, a customer often had to wait more than 10 minutes for the sales associate to locate a manager. Then the busy manager simply signed the check without reviewing the customer's identification. When the sales associates were empowered to make approvals, service improved and the number of bad checks decreased because the sales associates felt personally responsible and checked the identification carefully.

Each store in the Whole Foods chain is a profit center with the store employees empowered by their organization into 10 self-managed teams. The teams are responsible and accountable for the store's performance. For example, the store manager recommends
new hires, but if takes a two-thirds vote of the team to actually hire the candidate. The team members pool their ideas and come up with creative solutions to problems.
Starbucks' Baristas Are Committed to Providing the Perfect Cup of Coffee

Starbucks develops a passion for coffee in its customers by providing the perfect cup in an entertaining atmosphere. Recognizing that its frontline employees are critical to providing the perfect cup, the company has built an organization's culture based on two principles:

1. Strict standards for how coffee should be prepared and delivered to customers, and
2. A laid-back, supportive, empowering attitude toward employees.

All new hires go through a 24-hour training program that instills in them a sense of purpose, commitment, and enthusiasm. The new staffs are treated with dignity and respect that goes along with their title as baristas (Italian for bartender). To emphasize their responsibility to please customers, they're presented with a scenario in which a customer complains that a pound of beans was ground incorrectly. The preferred response is to replace the beans on the spot without checking with the manager or someone with greater authority.

So the firm can hold on to these motivated, well-trained employees, both full-and part-time, are eligible for health benefits and a stock option plan called "Bean Stock." Baristas know about and are encouraged to apply for promotion to store management positions. Due to its training, empowerment, benefits, and opportunities Starbucks' turnover is only 60 percent of its store employees, considerably less than the 300 percent average turnover experienced by similar food service firms.

Starbucks' human resource practices also have facilitated its entry into foreign markets. For example, its joint-venture partner Mei Da Coffee Company faced a challenge hiring local manager for its first four restaurants in Beijing. Even though the demand for good managers was far greater than the supply, Starbucks was viewed as an attractive employer because of its corporate culture and opportunities for career development and advancement. Candidates were impressed with the casual atmosphere and the respect employees show for one another. One recruit stated, "People are looking for a good working environment, where they can learn, and they are looking for dignity." The new recruits were trained in Seattle so, they could experience the corporate culture and learn how to make the different coffee drinks.

Starbucks Corporate culture supports the Barista’s role in providing customers a satisfying experience.

Empowerment of retail employees transfers authority and responsibility for making decisions to lower levels in the organization. These employees are closer to the customers and in a good position to know what it takes to satisfy these customers. For empowerment to work, managers must have an attitude of respect and trust, not control and distrust.

6.2.3 Creating Partnering Relationships
Three HR management activities that build commitment by developing partnering relationships with employees are (1) reducing status differences, (2) promoting from within, and (3) enabling employees to balance their careers and families.

**Reducing Status Differences** - Many retailers attempt to reduce status differences among employees. With limited status differences, employees feel that they play an important role in the firm's ability to achieve its goals and that their contributions are valued.

Status differences can be reduced symbolically through the use of language and substantively by lowering wage differences and increasing communications among managers at different levels in the company. For example, hourly workers at JCPenney are referred to as associates and managers are called partners, a practice that Sam Walton adopted when he started Wal-Mart.

Whole Foods has a policy of limiting executive compensation to less than eight times the compensation of the average full-time salaried employee. When Herb Kelleher was CEO of Southwest Airlines, he negotiated a five-year wage freeze for his employees in exchange for stock options. He also agreed to freeze his base salary at $380,000. Sam Walton typically appeared on lists of the most underpaid CEOs.

All Home Depot senior executives spend time in the stores, wearing the orange apron, talking with customers and employees. This "management by walking around" makes employees feel that their inputs are valued by the company and reinforces the customer service culture at Home Depot.

**Promotion from within** - Promotion from within is a staffing policy that involves hiring new employees only for positions at the lowest level in the job hierarchy and then promoting those experienced employees for openings at higher levels in the hierarchy. Nordstrom, Home Depot, and Wal-Mart all have used promotion-from-within policies, whereas others frequently hire people from competitors when management positions open up.

Promotion-from-within policies establish a sense of fairness. When employees do an outstanding job and then outsiders are brought in over them, the employees feel that the company doesn't care about them. Promotion-from-within policies also commit the retailer to developing its employees.

**Balancing Careers and Families** - The increasing number of two-income and single-parent families makes it difficult for employees to effectively do their jobs and manage their households. Retailers can build employee commitment by offering services like job sharing, childcare, and employee assistance programs to help their employees manage these problems.
Flextime - Flextime is a job scheduling system that enables employees to choose the times they work. With job sharing, two employees voluntarily are responsible for a job that was previously held by one person. Both programs let employees accommodate their work schedules to other demands in their life, such as being home when their children return from school.

Many retailers offer childcare assistance. Sears' corporate headquarters near Chicago has a 20,000 square foot day care center. At Eddie Bauer in Seattle, the corporate headquarters cafeteria stays open late and prepares takeout meals for time-pressed employees. Some companies will even arrange for a person to be at an employee's home waiting for the cable guy to come or pick up and drop off dry cleaning.

6.3 ISSUES IN RETAIL HUMAN RESOURCE MANAGEMENT

In this section, we discuss three trends in HR management: (1) the increasing importance of a diverse workforce, (2) the growth in legal restrictions on HR practices, and (3) the use of technology to increase employee productivity.

6.3.1 Managing Diversity

Managing diversity is a human resource management activity designed to realize the benefits of a diverse workforce: Today, diversity means more than differences in skin color, nationality, or gender, but managing a diverse workforce isn’t a new issue for retailers. In the late 1800s and early, 1900s, waves of immigrants entering America went to work in retail stores. The traditional approach for dealing with these diverse groups was to blend them into the "melting pot." Minority employees were encouraged to adopt the values of the majority, white, male-oriented culture. To keep their jobs and get promoted, employees abandoned their ethnic or racial distinctiveness.
Retailers are increasing the diversity of their workforce to match the diversity among their customers.

But times have changed. Minority groups now embrace their differences and want employers to accept them for who they are. The appropriate metaphor now is a salad bowl, not a melting pot. Each ingredient in the salad is distinctive, preserving its own identity, but the mixture of ingredients improves the combined taste of the individual elements.

Some legal restrictions promote diversity in the workplace by preventing retailers from practicing discrimination based on non-performance-related employee characteristics. But retailers now recognize that promoting employee 'diversity also can improve financial performance. By encouraging diversity in their workforce, retailers can better understand and respond to the needs of their customers and deal with the shrinking labor market.

To compete in this changing marketplace, retailers need management staffs that match the characteristics of their target markets. For example, the majority of merchandise sold in department stores and home improvement centers is bought by women. To better understand customer needs, department stores and home improvement retailers feel that they must have women in senior management positions people who really understand their female customers' needs.

Besides gaining greater insight into customer needs, retailers must deal with the reality that their employees will become more diverse in the future. Many retailers have found that these emerging groups are more productive than their traditional employees. After renovating its national reservation center to accommodate workers with disabilities, Days Inn found that turnover among disabled workers was only 1 percent annually compared with 30 percent for its entire staff. Lowe's, a home improvement center chain, changed floor employees' responsibilities so they wouldn't have to lift heavy merchandise. By assigning these tasks to the night crew, the firm was able to shift its floor personnel from male teenagers to older employees who provided better customer service and had personal experience with do-it-yourself projects. Effectively managing a diverse workforce isn't just morally correct, it's necessary for business success.

The fundamental principle behind managing diversity is the recognition that employees have different needs and require different approaches for accommodating those needs. Managing diversity goes beyond meeting equal employment opportunity laws. It means accepting and valuing differences. Some programs that retailers use to manage diversity involve offering diversity training, providing support groups and mentoring, and managing career development and promotions.

Diversity Training - Diversity training typically consists of two components: developing cultural awareness and building competencies. The cultural awareness component teaches people about how their own culture differs from the culture of other employees and how the stereotypes they hold influence the way they treat people, often in subtle ways that they might not realize. Then role-playing is used to help employees
develop their competencies, such as better interpersonal skills that enable them to show respect and treat people as equals.

**Support Groups and Mentoring** - Mentoring programs assign higher-level managers to help lower-level managers learn the firm's values and meet other senior executives. Many retailers help form minority-networks to exchange information and provide emotional and career support for members who traditionally haven't been included in the majority's networks. In addition, mentors are often assigned to minority managers. At Giant Foods, a Maryland-based supermarket chain, the mentoring program has reduced turnover of minorities by making them more aware of the resources available to them and giving them practical advice for solving problems that arise on their jobs.

**Career Development and Promotions** - Although laws provide entry level opportunities for women and minority groups, these employees often encounter a glass ceiling as they move through the corporation. A glass ceiling is an invisible barrier that makes it difficult for minorities and women to be promoted beyond a certain level. To help employees break through this glass ceiling, JCPenney monitors high-potential minority and female employees and makes sure they have opportunities for store and merchandise management positions that are critical for their eventual promotion to senior management.

Similarly, women in the supermarket business have traditionally been assigned to peripheral departments like the bakery and deli, while men were assigned to the critical departments in the store like meat and grocery. Even in the supermarket chain corporate office, women traditionally have been in staff-support areas like HR management, finance, and accounting, whereas men have been more involved in store operations and buying. To make sure that more women have an opportunity to break through the glass ceiling in the supermarket industry, more firms are placing them in positions critical to the firm's success.

**Refact**
In 1866, Macy's employed the first female executive in retailing when Margaret Getchell was promoted to the position of store superintendent.

### 6.3.2 Legal and Regulatory Issues in Human Resource Management

The proliferation of laws and "regulations affecting employment practices in the 1960s was a major reason for the emergence of human resource management as an important organization function. Managing in this complex regulatory environment required expertise in labor laws and skills in helping other managers comply with those laws. The major legal and regulatory issues involving the management of retail employees are

(1) Equal employment opportunity,

(2) Compensation,
(3) Labor relations,
(4) Employee safety and health,
(5) Sexual harassment, and
(6) Employee privacy.

**Equal Employment Opportunity** - The basic goal of equal employment opportunity regulations is to protect employees from unfair discrimination in the workplace. **Illegal discrimination** refers to the actions of a company or its managers that result in members of a protected class being treated unfairly and differently than others. A protected class is a group of individuals who share a common characteristic as defined by the law. Companies cannot treat employees differently simply on the basis of their race, color, religion, sex, national origin, age, or disability status. There are a very limited set of circumstances in which employees can be treated differently. For example, it is illegal for a restaurant to hire young, attractive servers because that is what its customers prefer. Such discrimination must be absolutely necessary, not simply preferred.

In addition, it is illegal to engage in a practice that disproportionately excludes a protected group, even though it might seem nondiscriminatory. For example, suppose that a retailer uses scores on a test to make hiring decisions. If a protected group systematically performs worse on the test, the retailer is illegally discriminating even if there was no intention to discriminate.

**Compensation** - Laws relating to compensation define the 40-hour workweek, the pay rate for working overtime, and the minimum wage, and they protect employee investments in their pensions. In addition, they require that firms provide the same pay for men and women who are doing equal work.

A recent issue related to compensation is the criteria used to classify employees as managers who are paid a salary and not eligible for overtime pay. A number of lawsuits have been filed by assistant managers claiming that they do the same job as hourly employees but are classified as managers so that their retail employer can avoid paying them overtime wages. For example, one lawsuit claimed Wal-Mart's district managers frequently encourage store managers to send hourly workers home before their shift is over to avoid overtime pay and then cause assistant managers to continue working to compensate for the absence of hourly workers.
These lawsuits point out the difficulty in distinguishing the tasks of assistant managers and hourly workers. Federal law requires that managers be paid overtime if more than 40 percent of their time is not spent supervising or if their jobs do not include decision making. However, many retailers feel managers perform other activities, such as interviewing job candidates, making schedules, and handling other supervisory duties. Because so many lawsuits regarding overtime pay are filed each year, the Labor Department has developed overtime rules and regulations, such as defining specific jobs as managerial and paying overtime to managers who earn less than $23,660 a year but denying overtime to employees who earn more than $100,000 annually.

**Labor Relations** - Labor relations laws describe the process by which unions can be formed and the ways in which companies must deal with the unions. They precisely indicate how negotiations with unions must take place and what the parties can and cannot do.

Wal-Mart has vigorously challenged attempts by unions to represent their employees. Supermarket chains with unionized employees believe they have a labor cost disadvantage that makes it difficult for them to compete effectively with Wal-Mart. In 2003, the three major supermarket chains in Southern California - Ralphs, Albertson’s, and Vons - failed to get concessions during contract negotiations with the United Food and Commercial Workers union, which then initiated a strike. The 20-week strike and lockout idled 59,000 workers, inconvenienced millions of shoppers, and cost the chains $2 billion in lost sales.

The key issues were healthcare and pension costs. The contract that was eventually ratified created a lower pay scale for all new hires and virtually ended the supermarket chains' responsibility for new workers' health coverage. Employers agreed to contribute $4.60 hourly for current workers. While the contract produced savings in labor costs, it has also made entry-level supermarket jobs less attractive to potential workers.

**Employee Safety and Health** - The basic premise of these laws is that the employer is obligated to provide each employee with an environment that is free from hazards that are likely to cause death or serious injury. Compliance officers from the Department of Labor
enforce the Occupational Safety and Health Act (OSHA) by conducting inspections to ensure that employers are providing such an environment for their workers.

Sexual Harassment Sexual harassment includes unwelcome sexual advances, requests for sexual favors, and other inappropriate verbal and physical conduct. Harassment isn't confined to requests for sexual favors in exchange for job considerations such as a raise or promotion. Simply creating a hostile work environment can be considered sexual harassment. For example, actions considered sexual harassment include lewd comments, joking, and graffiti, as well as showing obscene photographs, staring at a coworker in a sexual manner, alleging that an employee got rewards by engaging in sexual acts, and commenting on an employee's moral reputation.

Customers can engage in sexual harassment as much as supervisors and coworkers. For example, female pharmacists find that some male customers demand lengthy discussions when they buy condoms. Pharmacists have difficulty dealing with these situations because they want to keep the person as a customer but also protect themselves from abuse.

Employee Privacy Employees' privacy protection is very limited. For example, employers can monitor e-mail and telephone communications, search an employee's work space and handbag, and require drug testing. However, employers cannot discriminate among employees when undertaking these activities unless they have a strong suspicion that specific employees are acting inappropriately.

Developing Policies - The HR department is responsible for developing programs and policies to make sure that managers and employees are aware of these legal restrictions and know how to deal with potential violations. These legal and regulatory requirements are basically designed to treat people fairly. Employees want to be treated fairly, and companies want to be perceived as treating their employees fairly. The perception of fairness encourages people to join a company and leads to the trust and commitment of employees to a firm. When employees believe they are not being treated fairly, they can complain internally, stay and accept the situation, stay but engage in negative behavior, quit, or complain to an external authority or even sue the employer.

Perceptions of fairness are based on two perceptions:
(1) Distributive justice and
(2) Procedural justice.
Distributive justice arises when the outcomes received are viewed as fair with respect to the outcomes received by others. However, the perception of distributive justice can differ across cultures. For example, in the individualistic culture of the United States, merit-based pay is perceived as fair, whereas in collectivist cultures such as China and Japan, equal pay is viewed as fair.
Procedural justice is based on the fairness of the process used to determine the outcome. American workers consider formal processes as fair, whereas group decisions
are considered fairer in collectivist cultures. Some illustrations of policies that pertain to procedural justice are presented in Chapter.

6.3.3 Use of Technology

Retail chains are using intranets to automate and streamline their HR operations. For example, Penney§ 150,000 employees use kiosks in the 1,200 Penney stores to make changes in their personnel records, request time off, register for training classes, review the company's policies and procedures manual, and request services such as direct deposit of their paychecks. These self-service kiosks are also used by job applicants to review open positions, submit applications, and take prescreening tests. The use of these kiosks, connected through an intranet to a centralized database, dramatically reduces the time human resources administrators spend on paperwork.

6.4 REVIEW QUESTIONS

1. To motivate employees, several major department stores are experimenting with incentive, compensation plans, though frequently, compensation plans with a lot of incentives don't promote good customer service. How can retailers motivate employees to sell merchandise aggressively and at the same time not jeopardize customer service?

2. Assume that you're starting a new restaurant that caters to college students and plan to use college students as servers. What human resource management problems would you expect to have? How could you build a strong organization culture in your restaurant to provide outstanding customer service?

3. Three approaches for motivating and coordinating employee activities are policies and supervision, incentives, and organization culture. What are the advantages and disadvantages of each?

4. Why should retailers be concerned about the needs of their employees? What can retailers do to satisfy these needs?

5. You've been promoted to manage a general merchandise discount store. Your assistant managers are an
The business press and companies are talking a lot about the importance of managing customer relationships. Companies are spending billions of dollars on computer systems to help them collect and analyze data about their customers. With this entire buzz, you’d think that the customer is a popular new kid in the neighborhood. However, the customer is more like an old friend who has been taken for granted—until now.

Consider the following example. Shari Ast is on her third business trip this month. She takes a cab Boston Logan airport to the Ritz-Carlton, her favorite hotel. As the doorman opens the car door for her she greets her with, "Welcome back to the Ritz-Carlton, Ms. Ast." When she goes to the registration the receptionist gives her a room key and asks if she would like to have her stay charged to her American Express card. Then she goes to her room and finds just what she prefers—a room with a view: Boston Commons, a single queen-size bed, an extra pillow and blanket, a fax machine connected to her telephone, and a basket with her favorite fruits and snacks.

Shari Ast’s experience is an example of the Ritz-Carlton's customer relationship management. Customer relationship management (CRM) is a business philosophy and set of strategies, IS, and systems that focuses on identifying and building loyalty with a
retailer's most valued customers. Based on the philosophy that retailers can increase their profitability by building relationships with their better customers, the goal of CRM is to develop a base of loyal customers who patronize the retailer frequently. In the following sections, we discuss in more depth about CRM.

From the outside, customers interacting with a company perceive the business as a single entity, despite often interacting with a number of employees in different roles and departments. CRM is a combination of policies, processes, and strategies implemented by an organization to unify its customer interactions and provide a means to track customer information.

CRM includes many aspects which relate directly to one another:

- **Front office operations** — Direct interaction with customers, e.g. face to face meetings, phone calls, e-mail, online services etc.
- **Back office operations** — Operations that ultimately affect the activities of the front office (e.g., billing, maintenance, planning, marketing, advertising, finance, manufacturing, etc.)
- **Business relationships** — Interaction with other companies and partners, such as suppliers/vendors and retail outlets/distributors, industry networks (lobbying groups, trade associations). This external network supports front and back office activities.
- **Analysis** — Key CRM data can be analyzed in order to plan target-marketing campaigns, conceive business strategies, and judge the success of CRM activities (e.g., market share, number and types of customers, revenue, profitability).

### 7.2 TYPES/VARIATIONS OF CRM

There are several different approaches to CRM, with different software packages focusing on different aspects. In general, Customer Service, Campaign Management and Sales Force Automation form the core of the system with SFA being the most popular.

**Operational CRM**

Operational CRM provides support to "front office" business processes, e.g. to sales, marketing and service staff. Interactions with customers are generally stored in customers' contact histories, and staff can retrieve customer information as necessary. The contact history provides staff members with immediate access to important information on the customer (products owned, prior support calls etc.), eliminating the need to individually obtain this information directly from the customer.

Operational CRM processes customer data for a variety of purposes:

- 'Managing Campaigns'
- Enterprise Automation
- Sales Force Automation
- Sales Management System

**Sales Force Automation (SFA)**

Sales Force Automation automates sales force-related activities such as:

- Scheduling sales calls or mailings
• Tracking responses
• Generating reports

**Analytical CRM**
Analytical CRM analyzes customer data for a variety of purposes:
• Designing and executing targeted marketing campaigns
• Designing and executing campaigns, e.g. customer acquisition, cross selling , p-
selling
• Analyzing customer behavior in order to make decisions relating to products and
services (e.g. pricing, product development)
• Management Information System (e.g. financial forecasting and customer
profitability analysis)

Analytical CRM generally makes heavy use of data mining

**Sales Intelligence CRM**
Sales Intelligence CRM is similar to Analytical CRM, but is intended as a more direct
sales tool. Features include alerts sent to sales staff regarding:
• Cross-selling/Up-selling/Switch-selling opportunities
• Customer drift
• Sales performance
• Customer trends
• Customer margins

**Campaign Management**
Campaign Management combines elements of Operational and Analytical CRM. Campaign
management functions include:
• Target groups formed from the client base according to selected criteria
• Sending campaign-related material (e.g. on special offers) to selected recipients
using various channels (e.g. e-mail, telephone, post)
• Tracking, storing, and analyzing campaign statistics, including tracking responses
and analyzing trends

**Collaborative CRM**
Collaborative CRM covers aspects of a company's dealings with customers that are
handled by various departments within a company, such as sales, technical support and
marketing. Staff members from different departments can share information collected
when interacting with customers. For example, feedback received by customer support
agents can provide other staff members with information on the services and features
requested by customers. Collaborative CRM's ultimate goal is to use information
collected by all departments to improve the quality of services provided by the company

**Geographic CRM**
Geographic CRM (GCRM) combines geographic information system and traditional
CRM. Geographic data can be analyzed to provide a snapshot of potential customers in a
region or to plan routes for customer visits.

7.2.1 **Strategy**
Several commercial CRM software packages are available, and they vary in their
approach to CRM. However, as mentioned above, CRM is not just a technology but
rather a comprehensive, customer-centric approach to an organization's philosophy of
dealing with its customers. This includes policies and processes, front-of-house customer
service, employee training, marketing, systems and information management. Hence, it is
important that any CRM implementation considerations stretch beyond technology toward the broader organizational requirements. The objectives of a CRM strategy must consider a company’s specific situation and its customers' needs and expectations. Information gained through CRM initiatives can support the development of marketing strategy by developing the organization's knowledge in areas such as identifying customer segments, improving customer retention, improving product offerings (by better understanding customer needs), and by identifying the organization's most profitable customers. CRM strategies can vary in size, complexity, and scope. Some companies consider a CRM strategy only to focus on the management of a team of salespeople. However, other CRM strategies can cover customer interaction across the entire organization. Many commercial CRM software packages provide features that serve the sales, marketing, event management, project management, and finance industries.

7.3 IMPLEMENTATION ISSUES

While there are numerous reports of "failed" implementations of various types of CRM projects, these are often the result of unrealistically high expectations and exaggerated claims by CRM vendors. Many of these "failures" are also related to data quality and availability. Data cleaning is a major issue. If a company's CRM strategy is to track life-cycle revenues, costs, margins, and interactions between individual customers, this must be reflected in all business processes. Data must be extracted from multiple sources (e.g., departmental/divisional databases such as sales, manufacturing, supply chain, logistics, finance, service etc.), which requires an integrated, comprehensive system in place with well-defined structures and high data quality. Data from other systems can be transferred to CRM systems using appropriate interfaces. Because of the company-wide size and scope of many CRM implementations, significant pre-planning is essential for smooth roll-out. This pre-planning involves a technical evaluation of the data available and the technology employed in existing systems. This evaluation is critical to determine the level of effort needed to integrate this data. Equally critical is the human aspect of the implementation. A successful implementation requires an understanding of the expectations and needs of the stakeholders involved. An executive sponsor should also be obtained to provide high-level management representation of the CRM project. An effective tool for identifying technical and human factors before beginning a CRM project is a pre-implementation checklist. A checklist can help ensure any potential problems are identified early in the process.

7.4 THE CRM PROCESS

Traditionally, retailers have focused their attention on encouraging customers to visit their stores, look through their catalogs, and visit their Web sites. To accomplish this
objective, they have used mass media advertising and sales promotions, treating all of their customers the same. Now retailers are beginning to concentrate on providing more value to their best customers using targeted promotions and services to increase their share of wallet - the percentage of the customers' purchases made from the retailer-from these customers. This change in perspective is supported by research indicating that it costs three to six times more to sell products and services to new customers than to existing customers and those small increases in customer retention can lead to dramatic increases in profits. For instance, at furniture retailer Domain, the typical first-time purchase by a customer is about $1,500. Repeat purchasers with Domain spend 3.5 times what a one-time-only customer: purchases. Their “most valuable” customers have spent over $140,000.

7.4.1 What is Loyalty?

Customer loyalty, the objective of CRM, is more than having customers make repeat visits to a retailer and being satisfied with their experiences. Customer loyalty to a retailer means that customers are committed to purchasing merchandise and services from the retailer and will resist the activities of competitors attempting to attract their patronage. They have a bond with the retailer, and the bond is based on more than a positive feeling about the retailer.

Loyal customers have an emotional connection with the retailer. Their reasons for continuing to patronize a retailer go beyond the convenience of the retailer's store or the low prices and specific brands offered by the retailer. They feel such goodwill toward the retailer that they will encourage their friends and family to buy from it.

Programs that encourage repeat buying by simply offering price discounts can be easily copied by competitors. In addition, these types of price-promotion programs encourage customers to always look for the best deal rather than develop a relationship with one retailer. However, when a retailer develops an emotional connection with a customer, it is difficult for a competitor to attract that customer.

Emotional connections develop when customers receive personal attention. For example, many small, independent restaurants build loyalty by functioning as neighborhood cafes, where waiters and waitresses recognize customers by name and know their preferences. Dorothy Lane Market in Dayton, Ohio, for example, uses a sophisticated customer database management system to lavish attention on its customers. Loyalty club members who spent the most over the previous year receive a handwritten note from the CEO. When a major roadway slowed business from customers living in a particular area, Dorothy Lane mailed out maps to affected residents detailing a detour to help encourage customers to return.

Unusual positive experiences also build emotional connections. For example, a family was shopping for shoes for their teenage daughter who was going through a growth spurt. One of her feet was a size 10, and the other was a 10½. The salesperson broke up two pairs of shoes to make the sale and ensure a satisfied customer. The gesture paid off - that day the family purchased five pairs of shoes and have remained loyal customers ever
since. Providing such memorable experiences is an important avenue for building customer loyalty.

7.4.2 Overview of the CRM Process

Exhibit 7-1 illustrates that CRM is an iterative process that turns customer data into customer loyalty through four activities:
(1) Collecting customer data,
(2) Analyzing the customer data and identifying target customers,
(3) Developing CRM programs, and
(4) Implementing CRM programs.

The process begins with the collection and analysis of data about a retailer's customers and the identification of target customers. The analysis translates the customer information into activities that offer value to the targeted customers. Then these activities are executed through communication programs undertaken by the marketing department and customer service programs implemented by customer contact employees, typically sales associates. Each of the four activities in the CRM process is discussed in the following sections.
Exhibit 7.1: The CRM Process Cycle
7.5 COLLECTING CUSTOMER DATA

The first step in the CRM process is to construct a **customer database**. This database is part of the data warehouse described in Chapter 10. It contains all of the data the firm has collected about its customers and is the foundation for subsequent CRM activities.

**7.5.1 Customer Database**

Ideally, the database should contain the following information:

- **Transactions** - a complete history of the purchases made by the customer, including the purchase date, the price paid, the SKUs purchased, and whether the merchandise was purchased in response to a special promotion or marketing activity.

- **Customer contacts** - a record of the interactions that the customer has had with the retailer, including visits to the retailer's Web site, inquiries made through in-store kiosks, and telephone calls made to the retailer's call center, plus information about contacts initiated by the retailer, such as catalogs and direct mail sent to the customer.

- **Customer preferences** - what the customer likes, such as favorite colors, brands, fabrics, and flavors, as well as apparel sizes. At the beginning of this unit, we described Shari Ast's experience checking into the Boston Ritz-Carlton. The Ritz-Carlton did not learn about Shari's preferences by asking her to complete a questionnaire; instead, it collected this information by recording each request she made during her previous stays at Ritz-Carlton hotels into her customer file.

- **Descriptive information** - demographic and psychographic data describing the customer that can be used in developing market segments.

- **Responses to marketing activities** - the analysis of transaction and contact data provides information about the customer's responsiveness to marketing activities.

Different members of the same household also might also have interactions with a retailer. Thus, to get a complete view of the customer, retailers need to be able to combine individual customer data from each member of a household. For example, at Mitchell's, a family-owned apparel chain in Westport and Greenwich, Connecticut, husbands and wives buy things for each other. The chain's database keeps track of both household-level purchases and individual purchases so sales associates can help one spouse buy a gift for the other. The database also keeps track of spending changes and habits. Anniversaries, birthdays, and even divorces and second marriages are tracked along with style, brand, size, and color preferences; hobbies; and sometimes pets' names and golf handicaps.

With today's technology, independent companies are able to network with their larger suppliers to increase sales. For example, George Matick Chevrolet in Redford, Michigan, doubled its sales when it installed a CRM program that helped it keep track of potential sales leads. The leads originate both from its own and General Motors' Web site.
7.5.2 Identifying Information

Constructing a database for catalog and Internet shoppers and customers who use the retailer's credit when buying merchandise in stores is relatively easy. Customers buying merchandise through non-store channels must provide their contact information, name, and address so that the purchases can be sent to them. When retailers issue their own credit cards, they can collect the contact information for billing when customers apply for the card. In these cases, the identification of the customer is linked to transaction. However, identifying most customers who are making in-store transactions is more difficult because they often pay for the merchandise with a check, cash, or a third-party credit card such as and MasterCard.

Three approaches that store-based retailers use to overcome this problem are:
(1) Asking customers for identifying information,
(2) Offering frequent shopper cards, and
(3) Connecting Internet purchasing data with the stores.

Asking for Identifying Information Some retailers such as M.A.C, New England's Christmas Tree Shops, and The Container Store have their sales associates ask customers for identifying information, such as their phone number or name and address, when they ring up a sale. This information is then used to create a transaction database for the customer. However, this approach has two limitations. First, some customers may be reluctant to provide the information and feel that the sales associates are violating their privacy. Second, sales associates might forget to ask for the information or decide not to spend the time getting and recording it during a busy period.

Offering a Frequent Shopper Card - Frequent shopper programs, also called loyalty programs, are programs that identify and provide rewards to customers who patronize a retailer. When customers enroll in one of these programs, they provide some descriptive information about themselves or their household and are issued a card with an identifying number. The customers then are offered an incentive to use the card when they make purchases from the retailer. Neiman Marcus and Harrah's both give points for every dollar spent or gambled. At Neiman Marcus, the points are redeemed for special gifts, whereas Harrah's customers get special privileges and complementary food, drinks, and even rooms.

From the retailer's perspective, frequent shopper programs offer two benefits:
(1) Customers provide demographic and other information when they sign up for the program and then are motivated to identify themselves at each transaction and

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(2) Customers are motivated by the rewards offered to increase the number of visits and the amount purchased on each visit to the retailer.

The major problems with using frequent shopper cards for identification are that the card is often squeezed out of the customer's wallet by other cards, the customer might forget to bring it to the store when shopping, or the customer might decide not to show it if he or she is in a hurry. Retailers overcome this problem by informing customers that if they forget their membership card, their number will suffice.

Other retailers are experimenting with technology to increase customer loyalty and spending but mate cards. The Interactive Loyalty Card (ILC) is a miniature optical scanner with two-way communication ability that stores and transmits data. This small piece of equipment attaches to a key chain and integrates current store loyalty programs with the retailer's and manufacturers' promotions.

Customers can simply scan print coupons or download Internet discounts. The eligible coupon codes are integrated with the customer's personal loyalty account, and deductions are taken from the total. Kiosks can allow customers to view and sort their coupons. This technology has been pilot tested at Green Hills farms in Syracuse, New York, with promising success. The store saw an increase across the board in year to year sales, frequency of visits, and manufacturer coupon redemption.

Rather than asking for identifying information or requiring a frequent shopper card, some retailers, especially those in the services sector, use a cashless, cardless payment and loyalty system. Using a pre-registered fingerprint, a customer can pay efficiently, and the company can store the customer information quickly and accurately.

The Piggly Wiggly grocery chain has implemented this biometric technology in over 100 grocery in South Carolina. Once the fingerprint is recognized and the customer enters a "search" number (usually a phone number), the customer's loyalty account is opened, and a list of payment options appear as checking, debit, or credit. This system eliminates all cards, completely and fully integrates loyalty programs and customer data, and makes rewards easily available with the simple act of a print scan.

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Some research has shown that, at least in the US supermarket industry, frequent shopper cards do not lead to increased loyalty. Other factors, such as a convenient location and fast checkout, have bigger impact on customer loyalty.
Shopper cards reward the customer with incentives and benefits while the retailer gains insight about the consumer demographics and shopping behavior.

Connecting Internet Purchasing Data with the Stores - If a customer has used a credit while shopping on a multi-channel retailer's Internet site or from its catalog, and then uses the same to make a purchase in the retailer's store, the retailer can update the customer's purchase record and capture information about where the customer lives or works from the shipping information. For instance if a customer purchases a computer at staples.com using a credit card and then uses the same credit to purchase supplies at a store, Staples can capture the customer's name and shipping address date the purchase record.

7.5.3 Privacy and CRM Programs
While detailed information about individual customers helps retailers provide more benefits to their better customers, consumers are concerned about retailers violating their privacy when they collect this information. For example, Amazon caused considerable concerns among its customers when it e-mailed them to say it was changing its privacy rules. The new rules indicated that Amazon would no longer low its customers to preclude Amazon from sharing the information about the customers' purchases with third parties. The adverse public reaction spurred on by two online privacy organizations-Junkbusters (www.junkbusters.com) and the Electronic Privacy Information Center (www.epic.org) created such an uproar that Amazon altered its policy.

Since that time, other retailers have been criticized for failing to respect consumers' privacy. For instance, the Federal Trade Commission (FTC) charged BJ's Wholesale Club with failing to encrypt consumer information when transmitting or storing data at its outlets and taking "unnecessary risks" by storing data for more than 30 days. The
FTC also charged that BJ's stored data in files that could be accessed "using commonly known default user IDs and passwords." As a result, BJ's settled a consent agreement with the FTC that requires much tighter security at BJ's, as well as an independent audit of the chain's computer security system every two years for the next 20 years.

**Privacy Concerns** The degree to which consumers feel their privacy has been violated depends on the following:

- Their control over their personal information when engaging in marketplace transactions. Do they feel they can decide on the amount and type of information collected by the retailer?
- Their knowledge about the collection and use of personal information. Do they know what information is being collected and how the retailer will be using it? Will the retailer be sharing the information with other parties?

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**Refact**

Seventy-one percent consumers believe that protecting personal information and privacy is more of a concern now than a few years ago.

These concerns are particularly acute for customers using an electronic channel because many of them do not realize the extensive amount of information that can be collected without their knowledge. In addition to collecting transaction data, electronic retailers can collect information by placing cookies on visitor's hard drives. **Cookies** are text files that identify visitors when they return to a Web site. Due to the data in the cookies, customers do not have to identify themselves or use passwords every time they visit a site. However, the cookies also collect information about other sites the person has visited and what pages they have downloaded.

**Protecting Customer Privacy** - What is personal information? The definition is debatable. Some people define personal information as all information that is not publicly available; others include both public (e.g., driver's license, mortgage data) and private (hobbies, income) information.

Who is responsible for ensuring consumer privacy? In the United States, legal protection for individual privacy is limited. Existing legislation is restricted to the protection of information in a few specific contexts, including government functions and practices in credit reporting, video rentals, banking, and health care. However, the European Union (EU) and Canada are much more aggressive in protecting consumer privacy. Some of the provisions of the EU directive on consumer privacy include the following:

- Businesses can collect consumer information only if they have clearly defined the purpose, such as completing the transaction.
- The purpose must be disclosed to the consumer from whom the information is being collected.
- The information can only be used for that specific purpose.
The business can only keep the information for the stated purpose. If the business wants to use the information for another purpose, it must initiate a new collection process.

Businesses operating in Europe can only export information from the 25 EU countries to importing countries with similar privacy policies. Thus, U.S. retailers, hotel chains, airlines, and banks cannot transfer information from Europe to the United States because the United States does not have similar privacy policies.

Basically, the EU perspective is that consumers own their personal information and retailers must get consumers to explicitly agree to share this personal information. This agreement is referred to as an **opt in**. In contrast, personal information in the United States is generally viewed as being in the public domain, and retailers can use it in any way they desire. American consumers must explicitly tell retailers not to use their personal information—they must **opt out**.

The EU has delayed enforcement of its directive. The United States is currently negotiating a safe harbor program that would enable U.S. companies abiding by the EU directives to export information. However, due to increasing concerns about consumer privacy, Congress is considering new legislation on consumer privacy. The Federal Trade Commission has developed the following set of principles for fair information practices:

- **Notice and awareness**—covers the disclosure of information practices, including a comprehensive statement of information use such as information storage, manipulation, and dissemination.
- **Choice/consent**—includes both opt out and opt in options and allows consumers the opportunity to trade information for benefits.
- **Access/participation**—allows for the confirmation of information accuracy by consumers.
- **Integrity/security**—controls for the theft of and tampering with personal information.
- **Enforcement/redress**—provides a mechanism to ensure compliance by participating companies.

In summary, there is growing consensus that personal information must be fairly collected, that the collection must be purposeful, and that the data should be relevant, maintained as accurate, essential to business, subject to the rights of the owning individual, kept reasonably secure, and transferred only the permission of the consumer. To address these concerns, many retailers that collect customer information have privacy policies. The Electronic Privacy Information Center (www.epic.org) recommends that privacy policies clearly state what information is collected from each visitor and how it will be used, give consumers a choice as to whether they give information, and allow them to view and correct any personal information held by an online retail site. Retailers need to ensure their customers that information about them is held securely and not passed on to other companies without the customer’s permission.
The next step in the CRM process is to analyze the customer database and convert the data into information that will help retailers develop programs for building customer loyalty. Data mining, one approach commonly used to develop this information, identifies patterns in data, typically those that the analyst is unaware of prior to searching through the data. For example, an electronic retailer in London discovered that customers who had bought portable DVD players typically commuted to work by train. Using this information, the retailer experienced a 43 percent increase in portable DVD player sales when it redirected most of its communication budget from daytime television commercials to newspapers and billboards along the train tracks.

**Market basket analysis** - It is a specific type of data analysis that focuses on the composition of the basket, or bundle, of products purchased by a household during a single shopping occasion. This analysis is often useful for suggesting where to place merchandise, in a store. For example, on the basis of market basket analyses, Wal-Mart changed the traditional location of several items:

- Because bananas are the most common item in Americans' grocery carts, Wal-Mart Super-centers sell bananas next to the corn flakes, as well as in the produce section.
- Kleenex tissues are in the paper goods aisle and also mixed in with cold medicine.
- Measuring spoons appear in house wares and also hang next to Crisco shortening.
- Flashlights are in the hardware aisle and with the Halloween costumes.
- Little Debbie snack cakes are next to the coffee.
- Bug spray is merchandised with the hunting gear.

### 7.6.1 Identifying Market Segments

Traditionally, customer data analysis has focused on identifying market segments—groups of customers who have similar needs, purchase similar merchandise, and respond in a similar manner to marketing activities. For example, when Eddie Bauer analyzed its customer database, it discovered two types of shoppers. One group it calls "professional shoppers"—people who love fashion and value good customer service, The other group it calls "too busy to shop people"—people who want the shopping experience over as quickly as possible. The professional shoppers tended to use the alteration service, call the customer service desk, and seek out the same salesperson when they make purchases in the stores. In contrast, the people too busy to shop typically shop from the catalog and Web site. Eddie Bauer uses this information to develop unique advertising programs targeting each of these segments.

Eddie Bauer also discovered that morning shoppers are more price sensitive and like to buy products on sale more than do evening shoppers, who tended to be in the professional shopper segment. Using this information, Eddie Bauer installed electronic window posters in some test stores that allowed different images to be displayed at different times of the day. In the morning, the displays featured lower priced merchandise...
and items on sale, whereas in the evening, the more expensive and fashionable merchandise was displayed.

7.6.2 Identifying Best Customers

Using information in the customer database, retailers can develop a score or number indicating how valuable customers are to the firm. This score can then be used to determine which customers to target.

**Lifetime Value** - A commonly used measure to score each customer is called lifetime customer value. Lifetime customer value (LTV) is the expected contribution from the customer to the retailer's profits over his or her entire relationship with the retailer.

To estimate LTV, retailers use past behaviors to forecast future purchases, the gross margin from these purchases, and the costs associated with servicing the customers. Some of the costs associated with a customer include the costs of advertising, promotions used to acquire the customer, and processing merchandise that the customer has returned. Thus, a customer who purchases $200 of groceries from a supermarket every other month would have a lower LTV for the supermarket than a customer who buys $30 on each visit and shops at the store three times a week. Similarly, a customer who buys apparel only when it is on sale in a department store would have a lower LTV than a customer who typically pays full price and buys the same amount of merchandise.

These assessments of LTV are based on the assumption that the customer's future purchase behaviors will be the same as they have been in the past. Sophisticated statistical methods are typically used to estimate the future contributions from past purchases. For example, these methods might consider how recent purchases have occurred. The expected LTV of a customer who purchased $600 on one visit six months ago is probably less than the LTV of a customer who has been purchasing $100 of merchandise every month for the last six months.

**Refact**
While 50 percent of retail executives say their company collects data about individual customers, only 41 percent of these can identify their best customers..

**Customer Pyramid** - Most retailers realize that their customers differ in terms of their profitability or LTV. In particular, they know that a relatively small number of customers account for the majority of their profits. This realization is often called the 80-20 rule-80 percent of the sales or profits come from 20 percent of the customers. Thus, retailers could group their customers into two groups on the basis of the LTV scores. One group would be the 20 percent of the customers with the highest LTV scores, and the other group would be the rest. However, this two-segment scheme, "best" and "rest," does not consider important differences among the 80 percent of customers in the "rest" segment. A commonly used segmentation scheme divides customers into four segments, as illustrated in Exhibit 7-2. This scheme allows retailers
to develop more appropriate strategies for each of the segments. Each of the four segments is described below:

- **Platinum segment:** This segment is composed of the retailer's customers with the top 25 percent LTVs. Typically, these are the most loyal customers who are not overly concerned about merchandise price, and place more value on customer service.

- **Gold segment:** The next 25 percent of customers in terms of their LTV make up the gold segment. These customers have a lower LTV than platinum customers because they are more price sensitive. Even though they buy a significant amount of merchandise from the retailer, they are not as loyal as platinum customers and probably patronize some of the retailer's competitors.

- **Iron segment:** Customers in this third tier probably do not deserve much special attention from the retailer due to their modest LTV.

- **Lead segment:** Customers in the lowest segment can cost the company money. They often demand a lot of attention but do not buy much from the retailer. For example, real estate agents often encounter people who want to spend their weekends looking at houses but are really not interested in buying one.

Exhibit 7.2. The customer Pyramid
7.7 DEVELOPING CRM PROGRAMS

Having segmented customers according to their future profit potential, the next step in the CRM program (see Exhibit 7.-1) is to develop programs for the different customer segments. In the following sections we discuss programs retailers use for
(1) Retaining their best customers,
(2) Converting good customers into high-LTV customers, and
(3) Getting rid of unprofitable customers.

7.7.1 Customer Retention

Four approaches that retailers use to retain their best customers are:
1. Frequent Shopper Programs;
2. Special Customer Services;
3. Personalization; and
4. Community.

Frequent Shopper Programs - As mentioned previously, frequent shopper programs are used to both build a customer database by identifying customers by their transactions and encourage repeat purchase behavior and retailer royalty. Retailers provide incentives to encourage customers to enroll in the program and use the card. These incentives are either discount on purchases made from the retailer or points for every dollar of merchandise purchased. The points are then redeemable for special reward. Some recommendations concerning the nature of the rewards offered are as follows:

- **Tiered Rewards** - Tiered Rewards should be tiered according to the volume of purchase to motivate customers to increase the level of their purchases. These tiers can be based on individual or cumulative transactions. Some programs combine both approaches by offering a $5 discount on purchases between $100 and $149.99, $10 dollars off purchases from $150 to $249.99, and $15 off purchases of $200 or more. In addition, for every $100 of cumulative discounts, customers earn an additional $10 of savings. Customers generally accept the idea that people who spend more should receive greater rewards.

- **Offer choices** - Not all customers value the same rewards. Thus, the most effective frequent shopper programs offer customers choices. For example, Coles Myer, a leading Australian retailer, originally offered customers air miles but shifted to a menu of rewards when it discovered that many customers did not value air miles. Tesco, a U.K. supermarket chain, lets customers cash in points for special discounts on entertainment, vacation packages, or sporting events. Sainsbury, a competitor, allows customers to use their points for vouchers at a variety of retail partners such as Blockbuster and British Gas. Non-monetary incentives also are very attractive to some customers. For example, Neiman Marcus's InCircle program offers customers the opportunity to redeem points for
an invitation to a cocktail party and Sotheby's auction or an underwater expedition to see the Titanic.

Some retailers link their frequent shopper programs to charitable causes. For example, Target donates 1 percent of all purchases charged to Target's Guest Card to a program that benefits local schools. Although these altruistic rewards can be an effective part of a frequent shopper program. Such incentives probably should not be the focal point of the program. Research indicates that the most effective incentives benefit the recipient directly, not indirectly, as is the case with charitable contributions.

- **Reward all transactions** - To ensure the collection of all customer transaction data and encourage repeat purchases, programs need to reward all purchases, not just purchases of selected merchandise.

- **Transparency and simplicity** - Customers need to be able to quickly and easily understand when they will receive rewards, what the rewards are, how much they have earned, and how they can redeem the points they have accumulated. The ground rules need to be clearly stated. There should be no surprises or confusion.

Four factors limit the effectiveness of frequent shopping programs. First, they can be expensive. For example, a 1 percent price discount can cost large retailers over $100 million a year. In addition, for a large retailer, the initial launch and maintenance investments (store training, marketing, fulfillment support, and information technology and systems cost) can be as high as $30 million. Annual maintenance costs can reach $5-$10 million when marketing program support, offer fulfillment, customer service, and IT infrastructure costs are included. Then there is the marketing support cost needed to maintain awareness of the program.

Second, it is difficult to make corrections in programs when problems arise. Programs become part of the customer's shopping experience, so customers must be informed about even the smallest changes in programs. They react negatively to any perceived "take away" once a program is in place, even if they are not actively involved in it. The more successful the program is, the greater the customer reactions to changes are, and these negative reactions can reduce customer trust in and loyalty toward the retailer.

Third, it is not clear that these programs increase customer spending behavior and loyalty toward the retailer. For example, the Wisconsin-based Sun Prairie grocery store polled shoppers throughout its 39 stores regarding its frequent shopper program. Over 80 percent of those surveyed would rather not use to receive the discounts on their purchases.

Fourth and perhaps most important, it is difficult to gain a competitive advantage based on frequent shopper programs. Because the programs are visible, they can be easily duplicated by competitors. Between 50 and 70 percent of all grocery retailers offer a loyalty card to their customers, and 80 percent of households have at least one of these grocery stores' cards in their wallets. Yet the perceived value of the card is low. Supermarkets' loyalty cards allow customers access to price discounts, which
encourages low-price shopper but not the loyal customer. Consumers see little difference between the programs when they all provide a discount of $.50 on detergent.

To avoid this problem, retailers are offering more personalized benefits to their best customers based on their unique knowledge of the customer; these benefits thus are more "invisible" to competitors.

**Special Customer Services** - Retailers provide unusually high-quality customer service to build and maintain the loyalty of their best customers. At Mitchells/Richards in Connecticut, it is not unusual for a salesperson to open the store after hours or bring an item to a customer's home. It is this type of special attention that facilitates success in a retail sector that has seen difficult times in recent years.

**Personalization** - An important limitation of CRM strategies developed for market segments, such as a platinum segment in the customer pyramid (Exhibit 7-2) is that each segment is composed of a large number of customers who are not identical. Thus, any strategy will be most appealing for only the typical customer and not as appealing to the majority of customers in the segment. For example, customers in the platinum segment with the highest LTVs might include a 25-year-old single woman who has quite different needs than a 49-year-old working mother with two children.

With the availability of customer-level data and analysis tools, retailers can now economically offer unique benefits and target messages to individual customers. They have the ability to develop programs for small groups of customers and even specific individuals. For example, at Harry Rosen, a Canadian men's apparel specialty retailer, customers are occasionally contacted by the salesperson with whom they have developed a personal relationship. If Harry Rosen receives a new shipment of Armani suits, the sales clerk will contact customers who have purchased Armani in the past. If a customer has been relatively inactive, the retailer Internet provides an opportunity for personalized retailing might send him a $100 certificate on something he has not bought in a while.

Developing retail programs for small groups or individual customers is referred to as **I-to-l retailing**. Many small, local retailers have always practiced I-to-L retailing. They know each of their customers, greet them by name when they walk in the store, and then recommend merchandise they know the customers will like. These local store owners do not need customer databases and data mining tools; they have the information in their heads. But most large retail chains and their employees do not have this intimate knowledge of their customers. Thus, the CRM process enables larger retailers to efficiently develop relationships similar to those that many small local retailers have with customers.

The Internet channel provides an opportunity for retailers to automate the practice of I-to-L retailing. When registered customers log on to Amazon.com, the first page they see is personalized for them. The name is displayed in a greeting, and the products displayed are based on an analysis of their past purchase behavior. For example, if a
customer has bought mystery novels from Amazon.com in the past, the latest books from mystery book authors whose novels he or she has bought are presented. Some privacy experts believe that some personalization efforts have crossed the line, however. For instance, Amazon has launched a Web search engine, called A9, that can remember everything the customer has ever searched for, and the site reserves the right to share the information with its retailing arm. Amazon also funds a Web site called 43 Things that seeks to link people with similar goals, such as getting out of debt.

The personalized rewards or benefits that customers receive are based on unique information possessed by the retailer and its sales associates. This information, in the retailer's customer database, cannot be accessed or used by competitors. Thus, it provides an opportunity to develop a sustainable competitive advantage.

The effective use of this information creates the positive feedback cycle in the CRM process (see Exhibit 7-1). Increasing repeat purchases from a retailer increases the amount of data collected from the customer, which enables the retailer to provide more personalized benefits, which in turn increases the customer's purchases from the retailer.

Community A fourth approach for building customer retention and loyalty is to develop a sense of community among customers. The Internet channel offers an opportunity for customers to exchange information using bulletin boards and develop more personal relationships with one another and the retailer. By participating in such a community, customers are more reluctant to leave the "family" of other people patronizing the retailer.

For example, in addition to offering merchandise for sale, a sporting goods retailer could provide an opportunity for organizers of local sporting events to post information about these events on its Web site. The volunteers organizing youth soccer and little league baseball teams and tennis and golf tournaments could provide information about meetings and game dates, times, and places. Then the retailer could collect information about the participants in local leagues and offer discounts to encourage teams to buy their uniforms and equipment from its store and facilitate these transactions.

7.7.2 Converting Good Customers into Best Customers
In the context of the customer pyramid (Exhibit 7-2), increasing the sales made to good customers to refer to as customer alchemy - converting iron and gold customers into platinum customers. Customer alchemy involves offering and selling more products and services to existing customers and increasing the retailer's share of wallet with these customers.

Tesco, the UK supermarket chain, added a second tier to its frequent shopper program to increase its share of wallet. The first tier has a traditional design to gather customer data. The second tier, targeted at its better customers, is more innovative. Customers earn a "key" when they spend $38 or more in a single transaction. Fifty keys make the customer a "key-holder." 100 keys a "premium key-holder." When customers achieve these higher levels, they get discounts on popular entertainment
events, theater tickets, sporting events, and hotel vacations. The key program seeks to convert iron and gold customers into platinum customers. In the four years since starting its key program, Tesco has raised its market share from 13 percent to more than 17 percent.

The retailer's customer database also reveals opportunities for cross selling and add-on selling. **Cross selling** refers to selling a complementary product or service in a specific transaction, such as selling a customer a printer when he or she has decided to buy a computer. For example, Stop & Shop Co. equipped some of its grocery stores in the Boston area with a "shopping buddy," a wireless computer device attached to shopping carts. It utilizes the retailer's loyalty card and the shopping history it collects to alert customers of sale items that they previously purchased and might want to buy again while they are on sale. If the customer's history shows she frequently purchases hamburgers but not ketchup, the shopping buddy might provide her with a special coupon for each.

**Add-on selling** - It involves selling additional new products and services to existing customers, such as a bank encouraging a customer with a checking account to apply for a home improvement loan.

Oprah Winfrey is a master of add-on-selling. She has capitalized on her popularity by building on her daytime tele-show (**The Oprah Winfrey Show**) to sell and promote books, movies, and television specials (**Harpo Productions**), a cable channel (**Oxygen Media**), a Web site (www.oprah.com), and a widely read magazine (**O**) to her target audience-women interested in self-improvement and empowerment. For viewers of the television show, each of these products provides additional value. For example, when a respected celebrity appears on her television show, an article with more detailed information about the celebrity will be published in O. Winfrey builds community by using her television show and magazine to encourage her customers to exchange experiences with her and others through her Web site. For example, a customer reading an article on volunteering with a nonprofit organization can go online and share her interests and experiences with others interested in volunteering.

### 7.7.3 Dealing with Unprofitable Customers

In many cases, the bottom tier of customers actually has a negative LTY. Retailers lose money on every sale they make to these customers. For example, catalog retailers have customers who repeatedly buy three or four items and return all but one of them. The cost of processing two or three returned items is much greater than the profits coming from the one item that the customer kept. Customers in the bottom tier may also be there as a result of vanishing and reappearing. For example, customers may vanish because a competitor is offering a more attractive offer or they are dissatisfied, and then return months or years later as a new customer. The costs of their (re)acquisition make them unprofitable. The process of no longer selling to these unprofitable customers can be referred to as "getting the lead out," in terms of the customer pyramid.

Other approaches for getting the lead out are:
(1) Offering less costly approaches for satisfying the needs of lead customers and
(2) Charging customers for the services they are abusing.
Fidelity Investments has about 550,000 Web site visits a day and more than 700,000
daily calls, about three-quarters of which go to automated systems that cost the
company less than a $1 each. The remaining calls are handled by call center agents,
who cost $13 per call. Fidelity contacted 25,000 lower-tier customers who placed a lot
of calls to agents and told them they must use the Web site or automated calls for
simple account and price information. Each name was flagged and routed to a special
representative who would direct callers back to automated services and tell them how to
use it. "If all our customers chose to go through live reps, it would be cost prohibitive,"
said a Fidelity spokeswoman.

7.8 IMPLEMENTING CRM PROGRAMS

Increasing sales and profits through CRM programs is a challenge. For example,
according to a study, 52 percent of retailers indicated that they were engaged in some
type of data mining; but 76 percent of retailers undertaking data mining indicated that
the activity had made no contribution to their bottom line.
This experience of retailers emphasizes that effective CRM requires more than
appointing a CRM manager, installing a computer system to manage and analyze a
customer database, and making speeches about the importance of customers. The
effective implementation of CRM programs requires close coordination of activities by
different functions in a retailer's organization. The MIS department needs to collect,
analyze, and make the relevant information readily accessible to the employees
implementing the programs-the frontline service providers and sales associates and the
marketers responsible for communicating with customers through impersonal channels
(mass advertising, direct e-mail). Store operations and human resource management
needs to hire, train, and motivate the employees who will be using the information to
deliver personalized services.

Most retailers are product-centric, not customer-centric; buyers in a retail firm are
organized by type of product. Typically, there is no area of a retail firm organized by
customer type and responsible for delivering products and services to different types of
customers. Perhaps in the future, retailers will have market managers to perform this
coordinating function.

Review Questions
1. What is CRM?
2. Why do retailers want to determine the lifetime value of their customers?
3. Why do customers have privacy concerns about the frequent shopper programs that supermarkets offer, and what can supermarkets do to minimize these concerns?
4. What are examples of opportunities for add-on selling that might be pursued by (a) travel agents, (b) jewelry stores, and (c) dry cleaners?
5. Which of the following type of retailers do you think would benefit most from instituting CRM: (a) supermarkets, (b) banks, (c) automobile dealers, or (d) consumer electronic retailers? Why?
6. Develop a CRM program for a local store that sells apparel with your college’s or university’s logo. What type of information would you collect about your customers, and how would you use this information to increase the sales and profits of the store?
7. What are the different approaches retailers can use to identify customers with their transactions? What are the advantages and disadvantages of each approach?
8. A CRM program focuses on building relationships with a retailer’s better customers. Some customers who do not receive the same benefits as the retailer’s best customers may be upset because they are treated differently. What can retailers do to minimize this negative reactions?
9. Think of one of your favorite places to shop. How does this retailer retail create customer loyalty and satisfaction, encourage repeat visits, establish an emotional bond between the customer and the retailer, know the customers’ preferences, and provide personal attention and memorable experiences to their “best customers”?
10. How would a retailer use transactions, customer preferences, descriptive information, and responses to marketing activities in its customer database?
CASE STUDIES

Structure
8.1 Rise Of Walmart, J.C Penny

8.1.1 About Wal-Mart
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8.1 Rise Of Walmart, J.C Penny

8.1.1 About Wal-Mart

Wal-Mart Stores, Inc. (or Walmart as written in its new logo) is an American public corporation that runs a chain of large, discount department stores. It is the world's largest public corporation by revenue, according to the 2008 Fortune Global 500. Founded by Sam Walton in 1962, it was incorporated on October 31, 1969, and listed on the New York Stock Exchange in 1972. It is the largest private employer in the world and the
fourth largest utility or commercial employer, trailing the British National Health Service, and the Indian Railways. Wal-Mart is the largest grocery retailer in the United States, with an estimated 20% of the retail grocery and consumables business. It also owns and operates the North American company, Sam's Club.

Wal-Mart operates in Mexico as Walmex, in the UK as ASDA, and in Japan as Seiyu. It has wholly owned operations in Argentina, Brazil, Canada, and Puerto Rico. Wal-Mart's investments outside North America have had mixed results: its operations in South America and China are highly successful, while it was forced to pull out of Germany and South Korea when ventures there were unsuccessful.

Wal-Mart has been criticized by some community groups, women's rights groups, grassroots organizations, and labor unions, specifically for its extensive foreign product sourcing, low rates of employee health insurance enrollment, resistance to union representation, and alleged sexism.

8.1.2 HISTORY

Sam Walton, a businessman from Arkansas, began his retail career when he started work on June 3, 1940, at a J.C. Penney store in Des Moines, Iowa where he remained for 18 months. In 1945, he met Butler Brothers, a regional retailer that owned a chain of variety stores called Ben Franklin and that offered him one in Newport, Arkansas.

Walton was extremely successful in running the store in Newport, far exceeding expectations. However, when the lease came up for renewal, Walton could neither come to agreement on the existing store's lease renewal nor find a new location in Newport. Instead, he opened a new Ben Franklin franchise in Bentonville, Arkansas, but called it "Walton's Five and Dime." There, he achieved higher sales volume by marking up slightly less than most competitors.

On July 2, 1962, Walton opened the first Wal-Mart Discount City store located in Rogers, Arkansas. Within five years, the company expanded to 24 stores across Arkansas and reached $12.6 million in sales. In 1968, it opened its first stores outside Arkansas, in Sikeston, Missouri and Claremore, Oklahoma.

8.1.3 INCORPORATION AND GROWTH

The company was incorporated as Wal-Mart Stores, Inc. on October 31, 1969. In 1970, it opened its home office and first distribution center in Bentonville, Arkansas. It had 38 stores operating with 1,500 employees and sales of $44.2 million. It began trading stock as a publicly held company on October 1, 1972, and was soon listed on the New York Stock Exchange. The first stock split occurred in May 1971 at a market price of $47. By this time, Wal-Mart was operating in five states: Arkansas, Kansas, Louisiana, Missouri, and Oklahoma; it entered Tennessee in 1973 and Kentucky and Mississippi in 1974. As it moved into Texas in 1975, there were 125 stores with 7,500 employees and total sales of $340.3 million.
During the 1980s, Wal-Mart continued to grow rapidly, and by its 25th anniversary in 1987 there were 1,198 stores with sales of $15.9 billion and 200,000 associates.[10] This year also marked the completion of the company's satellite network, a $24 million investment linking all operating units of the company with its Bentonville office via two-way voice and data transmission and one-way video communication. At the time, it was the largest private satellite network, allowing the corporate office to track inventory and sales and to instantly communicate to stores. In 1988, Sam Walton stepped down as CEO and was replaced by David Glass. Walton remained as Chairman of the Board, and the company also rearranged other people in senior positions.

Inside a Wal-Mart Supercenter in Mexico

In 1988, the first Wal-Mart Supercenter opened in Washington, Missouri. Thanks to its superstores, it surpassed Toys "R" Us in toy sales in the late 1990s. The company also opened overseas stores, entering South America in 1995 with stores in Argentina and Brazil; and Europe in 1999, buying ASDA in the UK for $10 billion.

In 1998, Wal-Mart introduced the "Neighborhood Market" concept with three stores in Arkansas. By 2005, estimates indicate that the company controlled about 20% of the retail grocery and consumables business.

In 2000, H. Lee Scott became President and CEO, and Wal-Mart's sales increased to $165 billion. In 2002, it was listed for the first time as America's largest corporation on the Fortune 500 list, with revenues of $219.8 billion and profits of $6.7 billion. It has remained there every year, except for 2006.

In 2005, Wal-Mart had $312.4 billion in sales, more than 6,200 facilities around the world—including 3,800 stores in the United States and 2,800 elsewhere, employing more than 1.6 million "associates" worldwide. Its U.S. presence grew so rapidly that only small pockets of the country remained further than 60 miles (100 km) from the nearest Wal-Mart.

As Wal-Mart grew rapidly into the world's largest corporation, many critics worried about the effect of its stores on local communities, particularly small towns with many "mom and pop" stores. There have been several studies on the economic impact of Wal-Mart on small towns and local businesses, jobs, and taxpayers. In one, Kenneth Stone, a Professor of Economics at Iowa State University, found that some small towns can lose almost half of their retail trade within ten years of a Wal-Mart store opening. However, in
another study, he compared the changes to what small town shops had faced in the past — including the development of the railroads, the advent of the Sears Roebuck catalog, as well as the arrival of shopping malls — and concluded that shop owners who adapt to changes in the retail market can thrive after Wal-Mart arrives. A later study in collaboration with Mississippi State University showed that there are "both positive and negative impacts on existing stores in the area where the new super center locates."

8.1.4 RECENT INITIATIVES

In October 2005, Wal-Mart announced it would implement several environmental measures to increase energy efficiency. The primary goals included spending $500 million a year to increase fuel efficiency in Wal-Mart’s truck fleet by 25% over three years and double it within ten, reduce greenhouse gas emissions by 20% in seven years, reduce energy use at stores by 30%, and cut solid waste from U.S. stores and Sam’s Clubs by 25% in three years. CEO Lee Scott said that Wal-Mart's goal was to be a "good steward for the environment" and ultimately use only renewable energy sources and produce zero waste. The company also designed three new experimental stores in McKinney, Texas, Aurora, Colorado, and Las Vegas, Nevada, with wind turbines, photovoltaic solar panels, biofuel-capable boilers, water-cooled refrigerators, and xeriscape gardens. Despite much criticism of its environmental record, Wal-Mart took a few steps in what is viewed as a positive direction, which included becoming the biggest seller of organic milk and the biggest buyer of organic cotton in the world, as well as reducing packaging and energy costs. Wal-Mart also spent nearly a year working with outside consultants to discover the company's total environmental impact and find where they could improve. They discovered, for example, that by eliminating excess packaging on their toy line Kid Connection, they could not only save $2.4 million a year in shipping costs but also 3,800 trees and a million barrels of oil. Wal-Mart has also recently created its own electric company in Texas, Texas Retail Energy, and plans to supply its stores with cheap power purchased at wholesale prices. Through this new venture, the company expects to save $15 million annually and also lays the groundwork and infrastructure to sell electricity to Texas consumers in the future.

In March 2006, Wal-Mart sought to appeal to a more affluent demographic. The company launched a new Supercenter concept in Plano, Texas, intended to compete against stores seen as more upscale and appealing, such as Target. The new store has wood floors, wider aisles, a sushi bar, a coffee/sandwich shop with free Wi-Fi Internet access, and more expensive beers, wines, electronics, and other goods. The exterior has a hunter green background behind the Wal-Mart letters, similar to Wal-Mart Neighborhood Markets, instead of the blue previously used at its supercenters.

On September 12, 2007, Wal-Mart introduced new advertising with the slogan, "Save Money Live Better," replacing the "Always Low Prices, Always" slogan, which it had used for the previous 19 years. Global Insight, which conducted the research that supported the ads, found that Wal-Mart's price level reduction resulted in savings for consumers of $287 billion in 2006, which equated to $957 per person or $2,500 per household (up 7.3% from the 2004 savings estimate of $2,329).
On June 30, 2008, Wal-Mart unveiled a new company logo, featuring the non-hyphenated name "Walmart" followed by a stylized spark, as it is referred to on store advertisements. The new logo received mixed reviews from some design critics, who question whether the new logo is as bold as competitors such as the Target bullseye or as instantly recognizable as the former company logo, which was used for 18 years. The new logo made its debut on the company's walmart.com website on July 1, 2008, although the old logo still appears on the corporate site, walmartstores.com. The new logo will eventually replace store logos at the company's US locations throughout the year. Wal-Mart international have not yet adopted the new logo.

8.1.5 SUBSIDIARIES

Wal-Mart's operations primarily comprise three retailing subsidiaries: Wal-Mart Stores Division U.S., Sam's Club, and Wal-Mart International. 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 Division U.S.

Wal-Mart Stores Division U.S. is Wal-Mart's largest business subsidiary, accounting for 67.2% of net sales for financial year 2006. It consists of three retail formats that have become commonplace in the United States: Discount Stores, Supercenters, and Neighborhood Markets. The retail department stores sell a variety of mostly non-grocery products, though emphasis has now shifted towards supercenters, which include more grocery items. This division also includes Wal-Mart's online retailer, walmart.com. On February 6, 2007, the company launched a "beta" version of its new movie download service, mediadownloads.walmart.com, which sells 3,000 films and television episodes from all major studios and television networks. This service was discontinued on December 21, 2007.

Wal-Mart Discount Stores

A typical Wal-Mart discount department store in Laredo, Texas

Wal-Mart Discount Stores are discount department stores with size varying from 51,000 square feet (4,738.1 m²) to 224,000 square feet (20,810.3 m²), with an average store covering about 102,000 square feet (9,476.1 m²). They carry general merchandise and a selection of food. Many of these stores also have a garden center, a pharmacy, Tire
& Lube Express, optical center, one-hour photo processing lab, portrait studio, a bank branch, a cell phone store and a fast food outlet. Some also have gasoline stations.\[^{36}\]

The first Wal-Mart store opened in Rogers, Arkansas in 1962.

In 1990, Wal-Mart opened its first Bud's Discount City location in Bentonville. Bud's operated as a closeout store, much like Big Lots. Many locations were opened to fulfill leases in shopping centers as Wal-Mart stores left and moved into newly built Supercenters. All of the Bud's Discount City stores closed or converted into Wal-Mart Discount Stores by 1997.

As of January 31, 2008, there were 971 Wal-Mart Discount Stores in the United States. In 2006, the busiest in the world was one in Rapid City, South Dakota.

### Wal-Mart Supercenter

A typical Wal-Mart Supercenter in Orangeburg, South Carolina

Wal-Mart Supercenters are hypermarkets with size varying from 98,000 square feet (9,104.5 m\(^2\)) to 261,000 square feet (24,247.7 m\(^2\)), with an average of about 197,000 square feet (18,301.9 m\(^2\)). These stock everything a Wal-Mart Discount Store does, and also include a full-service supermarket, including meat and poultry, baked goods, delicatessen, frozen foods, dairy products, garden produce, and fresh seafood. Many Wal-Mart Supercenters also have a garden center, pet shop, pharmacy, Tire & Lube Express, optical center, one-hour photo processing lab, portrait studio, and numerous alcove shops, such as cellular phone stores, hair and nail salons, video rental stores, local bank branches, and fast food outlets (usually Subway; several Supercenter and discount locations have also had McDonald's locations, usually with reduced menus, beginning in the early 1990s). Some also sell gasoline distributed by Murphy Oil Corporation (whose Wal-Mart stations are branded as "Murphy USA"), Sunoco, Inc. ("Optima"), or Tesoro Corporation ("Mirastar").

The first Supercenter opened in 1988 in Washington, Missouri. A similar concept, Hypermart USA, opened in Garland, Texas a year earlier. All of the Hypermart USA stores were later closed or converted into Supercenters.

As of January 31, 2008, there were 2,447 Wal-Mart Supercenters in the United States. The nation's largest Supercenter, covering 260,000 square feet (24,000 m\(^2\)) and two floors, is located in Crossgates Commons in Albany, New York.
Wal-Mart Neighborhood Market

Main article: Wal-Mart Neighborhood Market

Wal-Mart Neighborhood Markets are grocery stores that average about 42,000 square feet (3,901.9 m²). They offer a variety of products, which include full lines of groceries, pharmaceuticals, health and beauty aids, photo developing services, and a limited selection of general merchandise.

Neighborhood Markets are used to fill the gap between Discount Stores and Supercenters.

The first Neighborhood Market opened in 1998 in Bentonville, Arkansas. As of January 31, 2008, there were 132 of them in the United States.

Wal-Mart Neighborhood Market now has the same logo as Wal-Mart does. However, this change took place a few months after the new logo was introduced on June 30, 2008.

Sam's Club

A typical Sam's Club store in Maplewood, Missouri

Sam's Club is a chain of warehouse clubs which sell groceries and general merchandise, often in large quantities. Sam's Club stores are "membership" stores and most customers buy annual memberships. However, non-members can make purchases either by buying a one-day membership or paying a surcharge based on the price of the purchase. Some locations also sell gasoline. The first Sam's Club opened in 1983 in Midwest City, Oklahoma under the name "Sam's Wholesale Club".
Sam's has found a niche market in recent years as a supplier to small businesses. All Sam's Club stores are open early hours exclusively for business members and their slogan is "We're in Business for Small Business."

According to Wal-Mart's 2007 Annual Report, Sam's Club's sales during 2007 were $42 billion, or 12.1% of Wal-Mart's total 2007 sales. As of January 31, 2008, there were 591 Sam's Clubs in the United States.\[^{38}\]

**Marketside**

Marketside is a new chain of grocery stores. Opened in October 2008, the stores are said to be less than half the size of a conventional supermarket, as stated in the backgrounder found on Wal-Mart's official homepage. Each of their stores is open from 7 a.m. to 10 p.m.

### 8.1.6 WAL-MART INTERNATIONAL

Wal-Mart's UK subsidiary, ASDA

ASDA's headquarters, ASDA House in Leeds

A typical Wal-Mart store in Moncton, Canada
Wal-Mart's international operations currently comprise 2,980 stores in 14 countries outside the United States.\(^{[42]}\) According to Wal-Mart's 2006 Annual Report, the International division accounted for about 20.1% of sales.\(^{[33]}\) There are wholly owned operations in Argentina, Brazil, Canada, Puerto Rico (although PR is part of the US, the company's operations there are managed through its international division, and the UK. With 1.8 million employees worldwide, the company is the largest private employer in the US and Mexico, and one of the largest in Canada.


Sales in 2006 for Wal-Mart's UK subsidiary, ASDA (which retains the name it had before acquisition by Wal-Mart), accounted for 42.7% of sales of Wal-Mart's international division. In contrast to Wal-Mart's US operations, ASDA was originally and still remains primarily a grocery chain, but with a stronger focus on non-food items than most UK supermarket chains other than Tesco. At the end of 2007, ASDA had 340 stores, some of which are branded ASDA Wal-Mart Supercentres, as well as ASDA Supermarkets, ASDA Living, George High Street and ASDA Essentials stores.

In addition to its wholly owned international operations, Wal-Mart has joint ventures in China and several majority-owned subsidiaries. Wal-Mart's majority-owned subsidiary in Mexico is Walmex. In Japan, Wal-Mart owns about 53% of Seiyu. Additionally, Wal-Mart owns 51% of the Central American Retail Holding Company (CARHCO), consisting of more than 360 supermarkets and other stores in Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica.

In 2004, Wal-Mart bought the 116 stores in the Bompreço supermarket chain in northeastern Brazil. In late 2005, it took control of the Brazilian operations of Sonae Distribution Group through its new subsidiary, WMS Supermercados do Brasil, thus acquiring control of the Nacional and Mercadorama supermarket chains, the leaders in the Rio Grande do Sul and Paraná states, respectively. None of these was rebranded. As of August 2006, Wal-Mart operates 71 Bompreço stores, 27 Hiper-Bompreço stores, 15 Balaio stores, and three Hiper-Magazines (all originally parts of Bompreço). It also runs 19 Wal-Mart Supercenters, 13 Sam's Club stores, and two Todo Dia stores. With the acquisition of Bompreço and Sonae, Wal-Mart is currently the third largest supermarket chain in Brazil, behind Carrefour and Pão de Açúcar.
In July 2006, Wal-Mart announced its withdrawal from Germany due to sustained losses in a highly competitive market. The stores were sold to the German company Metro during Wal-Mart's fiscal third quarter. In November 2006, Wal-Mart announced a joint venture with Bharti Enterprises to open retail stores in India. As foreign corporations are not allowed to directly enter the retail sector in India, Wal-Mart will operate through franchises and handle the wholesale end. The partnership will involve two joint ventures; Bharti will manage the front end involving opening of retail outlets, while Wal-Mart will take care of the back end, such as cold chains and logistics.

Private label brands

About 40% of products sold in Wal-Mart are private label store brands, or products offered by Wal-Mart and produced through contracts with manufacturers. Wal-Mart began offering private label brands in 1991 with the launch of Sam's Choice, a brand of drinks produced by Cott Beverages exclusively for Wal-Mart. Sam's Choice quickly became popular, and by 1993 was the third beverage brand in the United States. Other Wal-Mart brands include Great Value and Equate in the US and Canada, and Smart Price in Britain. A 2006 study talked of "the magnitude of mind-share Wal-Mart appears to hold in shoppers' minds when it comes to awareness of private label brands and retailers."

Corporate affairs

Wal-Mart's business model is based on selling a wide variety of general merchandise at "always low prices." The company refers to its employees as "associates". All Wal-Mart stores in the US and Canada also have designated "greeters", who welcome shoppers at the store entrance.

In June, 2007, Wal-Mart announced it was retiring the blue vest its 1.5 million associates wear, and replacing it with khakis and polos. The replacement was to help Wal-Mart increase sales.

Unlike many other retailers, Wal-Mart does not charge a slotting fee to suppliers for their products to appear in the store. Instead, it focuses on selling more popular products and often pressures store managers to drop unpopular products, as well as asking manufacturers to supply more popular products.

On September 14, 2006, the company announced that it would phase out its layaway program, citing declining use and increased costs. Layaway ceased to be offered on November 19, 2006, and required merchandise pickup by December 8, 2006. Wal-Mart now focuses on other payment options, such as increased use of six- and twelve-month, zero-interest financing. The layaway location in most stores is now used for Wal-Mart's Site-To-Store program, which was introduced in March 2007. This enables walmart.com customers to buy goods online with a free shipping option, and have goods shipped to the nearest store for pickup. Financial
In 2006, Wal-Mart was 67th most profitable corporation (profits divided by total revenue), behind retailers Home Depot, Dell, and Target, and ahead of Costco and Kroger. For the fiscal year ending January 31, 2006, Wal-Mart reported a net income of $12 billion on $340 billion of sales revenue (3.5% profit margin). For the fiscal year ending January 31, 2006, Wal-Mart's international operations accounted for about 20.1% of total sales.[53] As of Dec 4, 2008, net sales for the 43-week period ending Nov 28, 2008 was $324.1 billion, up 7.6% from the previous year's results.

**Governance**

Wal-Mart is governed by a fifteen-member Board of Directors, which is elected annually by shareholders. Robson Walton, the eldest son of founder Sam Walton, serves as Chairman of the Board. Lee Scott, the Chief Executive Officer, serves on the board as well. Other members of the board include Aída Álvarez, James Breyer, Michele Burns, James Cash, Roger Corbett, Douglas Daft, David Glass, Roland Hernandez, Allen Questrom, Jack Shewmaker, Jim Walton, Christopher Williams, and Linda Wolf.[1]

Notable former members of the board include Hillary Clinton (1985–1992) and Tom Coughlin (2003–2004), the latter having served as Vice Chairman. Clinton left the board before the 1992 U.S. Presidential Election, and Coughlin left in December 2005 after pleading guilty to wire fraud and tax evasion for stealing hundreds of thousands of dollars from Wal-Mart.[63] On August 11, 2006, he was sentenced to 27 months of home confinement, five years of probation, and ordered to pay $411,000 in restitution.

**Competition**

In North America, Wal-Mart's primary competition includes department stores like Kmart, Target, ShopKo and Meijer, Canada's Zellers, Winners, and Giant Tiger, and Mexico's Comercial Mexicana and Soriana. Competitors of Wal-Mart's Sam's Club division are Costco, and the smaller BJ's Wholesale Club chain operating mainly in the eastern US. Wal-Mart's move into the grocery business in the late 1990s also set it against major supermarket chains in both the United States and Canada. Several smaller retailers, primarily dollar stores, such as Family Dollar and Dollar General, have been able to find a small niche market and compete successfully against Wal-Mart for home consumer sales. In 2004, Wal-Mart responded by testing its own dollar store concept, a subsection of some stores called "Pennies-n-Cents.

Wal-Mart also had to face fierce competition in some foreign markets. For example, in Germany it had captured just 2% of German food market following its entry into the market in 1997 and remained "a secondary player" behind Aldi with a 19% share.[67] In July 2006, Wal-Mart announced its withdrawal from Germany. Its stores were sold to German company Metro. Wal-Mart continues to do well in the UK, and its ASDA subsidiary is the second largest chain after Tesco. In May 2006, after entering the South Korean market in 1998, Wal-Mart withdrew and sold all 16 of its South Korean outlets to Shinsegae, a local retailer, for $882 million. Shinsegae re-branded the Wal-Marts as E-mart stores.
Wal-Mart struggled to export its brand elsewhere as it rigidly tried to reproduce its model overseas. In China, Wal-Mart hopes to succeed by adapting and doing things preferable to Chinese citizens. For example, it found that Chinese consumers preferred to select their own live fish and seafood; stores began displaying the meat uncovered and installed fish tanks, leading to higher sales.

In addition, under heavy pressure from the Chinese government, Wal-Mart accepted a form of organized labor in China. Chinese labor unions do not negotiate contracts but simply pay dues to the government, "to secure the social order." However, Chinese consumers may be more open to Americana than shoppers in Europe.

Customer base

Each week, about 100 million customers, nearly one-third of the U.S. population, visit Wal-Mart's U.S. stores. Wal-Mart customers give low prices as the most important reason for shopping there, reflecting the "Low prices, always" advertising slogan that Wal-Mart used from 1962 until 2006. The average US Wal-Mart customer's income is below the national average, and analysts recently estimated that more than one-fifth of them lack a bank account, twice the national rate. A Wal-Mart financial report in 2006 also indicated that Wal-Mart customers are sensitive to higher utility costs and gas prices. A poll before the 2004 US Presidential Election indicated that 76% of voters who shopped at Wal-Mart once a week planned to vote for George W. Bush, while only 23% planned to vote for John Kerry. When measured against other similar retailers in the U.S., frequent Wal-Mart shoppers were rated the most politically conservative.

In 2006, Wal-Mart took steps to expand its US customer base, announcing a modification in its US stores from a "one-size-fits-all" merchandising strategy to one designed to "reflect each of six demographic groups – African-Americans, the affluent, empty-nesters, Hispanics, suburbanites and rural residents." Around six months later, it unveiled a new slogan: "Saving people money so they can live better lives". This reflects the three main groups into which Wal-Mart categorizes its 200 million customers: "brand aspirationalists" (people with low incomes who are obsessed with names like KitchenAid), "price-sensitive affluents" (wealthier shoppers who love deals), and "value-price shoppers" (people who like low prices and cannot afford much more). Wal-Mart has also made steps to appeal to more liberal customers, for example, by rejecting the American Family Association's recommendations and carrying the DVD Brokeback Mountain, a love story between two gay cowboys in Wyoming.

Employee and labor relations
Labor unions, Christian organizations, and environmental groups have criticized Wal-Mart for its policies and/or business practices. In particular, several labor unions blame Wal-Mart workers' unwillingness to join their organizations on the company's anti-union stance. Others disapprove of the corporation's extensive foreign product sourcing, treatment of employees and product suppliers, environmental practices, and use of public subsidies, and the impact of stores on the local economies of towns in which they operate.

In 2005, two labor unions launched campaigns portraying Wal-Mart negatively. These included Wake Up Wal-Mart (United Food and Commercial Workers) and Wal-Mart Watch (Service Employees International Union). By the end of 2005, Wal-Mart launched Working Families for Wal-Mart, an operation managed by Wal-Mart to tell the company's side of the story. Additional efforts to counter criticism included a PR campaign in 2005, managed through its PR website walmartfacts.com, as well as several television commercials. The company retained the PR firm Edelman to respond to negative media attention, and started interacting directly with bloggers by sending them news, suggesting topics for postings, and sometimes inviting them to visit its corporate headquarters.

Full-time Wal-Mart employees earn an average of $10.78 per hour, but critics point out that the starting pay can be far lower — placing some employees with children below the poverty line — and that payrates do not rise as quickly as with unionized companies. Others decry low levels of health coverage or overpriced health insurance, though the company reports that it offers rates as low as $5 per month in some areas ($9 per month nationwide) and that 92% of its associates are insured (though not necessarily through Wal-Mart). Other grievances regard poor working conditions, unfavorable employer-employee relationships, and anti-union policies. Many suggest that Wal-Mart's high annual turnover-rate of ~70% shows that workers are dissatisfied and maltreated.

In response, Jay Nordlinger of National Review argues that Wal-Mart is attacked simply because it is a leader of the Fortune 500 list or the largest employer in America, and a "free-market success story". Penn & Teller devoted an episode of their show to an analysis of Wal-Mart criticism as a social movement. They theorized that despite the noble rhetoric, the real motivation of "Wal-Mart haters" was rooted in human psychology. They suggested that hating Wal-Mart permits a person "to feel better about themselves" for three main reasons: They "don't run a greedy international conglomerate", they aren't Wal-Mart workers, widely considered "low-skilled, minimum
wage drones", and they aren't Wal-Mart customers thought of as "toothless, welfare-getting hillbillies". Wal-Mart stores are unionized in every country outside of North America.

Wal-Mart has opposed the Employee Free Choice Act (EFCA), which would make it easier for workers to unionize. In mid-2008, the company required store managers and department heads to attend meetings at which opposition to the EFCA was used as a fulcrum for criticism of Democratic candidates in the elections for the United States Senate and the House of Representatives, as well as of the presumptive Democratic Presidential nominee, Senator Barack Obama. At these meetings, Wal-Mart human resources managers warned that Democratic victories might result in passage of the EFCA and hence more unionization. At one meeting, a Wal-Mart customer service supervisor from Missouri stated, "I am not telling you how to vote, but if the Democrats win, this bill will pass and you won't have a vote on whether you want a union. A Wal-Mart spokesman, while acknowledging that the meetings were taking place nationwide, said, "If anyone representing Wal-Mart gave the impression we were telling associates how to vote, they were wrong and acting without approval."

Several labor-rights groups including the AFL-CIO have asked the Federal Election Commission to investigate whether Wal-Mart broke federal election rules by advocating against Democratic candidate Barack Obama in meetings with employees.[95]

Diversity

Wal-Mart is currently facing a gender discrimination lawsuit, Dukes v. Wal-Mart Stores, Inc., which alleges that female employees were discriminated against in matters regarding pay and promotions. In February 2007, the United States Court of Appeals for the Ninth Circuit issued a 2–1 ruling which affirmed a lower court ruling to certify the case as a class-action lawsuit; plaintiffs estimate that about 1.6 million women could be included in the suit. According to a consultant hired by plaintiffs in a sex discrimination lawsuit, in 2001, Wal-Mart's EEOC filings showed that female employees made up 65% of Wal-Mart's hourly paid workforce, but only 33% of its management. Just 35% of its store managers were women, whereas 57% were at comparable retailers. The economist Marc Bendick Jr described the ratio of women store managers in 2001 as below that of comparable companies in 1975. On April 3, 2007, Wal-Mart reported that female employees were now 61% of its workforce and 40% of its management.[100]

A similar lawsuit, EEOC (Janice Smith) v. Wal-Mart Stores, Inc., was filed on August 24, 2001. It accused the retailer of discriminatory hiring practices at its London, Kentucky Distribution Center, dating back to 1995. Mauldin v. Wal-Mart Stores, Inc. charges that the company's denial of health insurance coverage for birth control is unfair to female employees. In 2002, the lawsuit was granted class action status, allowing all female employees after March 2001 to file claims if they were using contraceptives.

From 2002 through 2006, Wal-Mart received steadily increasing scores on the Human Rights Campaign's Corporate Equality Index, a measure of how companies treat LGBT employees and customers. The company's rating increased from 14% in 2002 to 43% in
2004, due to an expanded antidiscrimination policy to protect gay and lesbian employees.\footnote{103} The score increased to 57% in 2005, because of the company's new definition of family that included same-sex partners\footnote{104} and increased again in 2006 to a high of 65\%.\footnote{105} However, the rating for the 2008 edition dropped back to 40%, attributable to losses in two key areas: not renewing its membership in the National Gay and Lesbian Chamber of Commerce (which it joined in 2006), and a discrepancy from last year's study that was discovered in this year's answers and resulted in another 10-point loss (by comparison, Target scored 80\% and Kmart 100\%). As a result of the 40\% rating, HRC encouraged consumers to "strongly consider other [shopping] options."\footnote{1}

In January 2006, Wal-Mart announced that "diversity efforts include new groups of minority, female and gay employees that meet at Wal-Mart headquarters in Bentonville to advise the company on marketing and internal promotion. There are seven Business Resource Groups: women, African-Americans, Hispanics, Asians, Native Americans, Gays and Lesbians, and a disabled group."

8.1.7 A CHRONOLOGY OF WAL-MART

A chronology of Wal-Mart's stunning growth from its humble, small-town origins to the world's largest company.

**March 29, 1918** Sam Moore Walton born
Wal-Mart founder Sam Walton is born in Kingfisher, Okla. just before the Great Depression. In his autobiography, Walton writes, "No question about it, a lot of my attitude toward money stems from growing up during a pretty hardscrabble time in our country's history: the Great Depression."

**1940** Walton graduates from college, starts working retail at JCPenney
After graduating from the University of Missouri with a business degree, Walton goes to work for the retail department store giant, JCPenney, in Des Moines, Iowa, as a $75-a-month trainee. From 1942 to 1945, Walton serves in the Army, supervising security at aircraft plants and POW camps in the U.S.

**Sept. 1, 1945** Sam Walton opens his first retail store
After borrowing $20,000 from his father-in-law, the 27-year-old Walton purchases his first franchise, a Ben Franklin variety store in the tiny delta town of Newport, Ark. In four short years, he turns a money-losing store into the number one Ben Franklin franchise in the state. Walton seeks to maintain a competitive advantage by surveying rival stores to assess their pricing and display strategies. He also begins negotiating directly with manufacturers for goods, rather than following the existing pricing structures set out by Butler Brothers, the parent company of Ben Franklin.

**In 1949**, Walton loses the lease on his store in Newport. He wants to buy a department
store in St. Louis, but his wife Helen insists that she wants to live in a small town, no larger than 10,000 residents -- a decision that will have implications for Wal-Mart's growth strategy, as small-town communities were a relatively untapped population for discount retailers.

1951

The first Walton 5 and 10 opens in Bentonville, Ark.

Walton operates the Walton 5 and 10 as a Ben Franklin franchise. Two years later, he opens a second store in nearby Fayetteville, Ark. By 1962, he is the largest Ben Franklin franchise owner in the U.S., with 16 stores in Arkansas, Kansas and Missouri.

Walton's experience with the Ben Franklin stores makes him realize that there is an opportunity for discount stores that promise consistently low prices in small and rural communities. He tries to convince Butler Brothers of this idea, but they deny Walton the opportunity to experiment with his franchises.

July 2, 1962

The first Wal-Mart Discount City opens in Rogers, AR

After the rejection from Butler Brothers, Sam Walton and his younger brother, Bud, open their first discount store, Wal-Mart Discount City in Rogers, Ark. The store is twice as big as the original Walton 5 and 10 in Bentonville and sales are $975,000 in the store's first year.

Three other future retail giants open their doors in 1962: the first Kmart opens in Garden City, Mich.; Woolworth's department store opens its Woolco discount chain; and Dayton Hudson opens the first Target store. Within five years, Wal-Mart has 18 stores with sales of $9 million; while Kmart has 250 stores, with sales of more than $800 million.

October 1970

Wal-Mart becomes a publicly-traded company

By 1970, Wal-Mart has 38 locations and sales of $44.2 million, and is opening an average of two stores a year; however Sam Walton's debts total several million dollars. Walton struggles with the decision to go public, but he needs the cash to pay off his debts and open more stores. When the company goes public, the Walton family owns 61 percent of the stock.

1975

Sam Walton introduces the "Wal-Mart cheer"

After seeing employees at a South Korean tennis ball factory reciting a morning cheer, Walton introduces the "Wal-Mart cheer" to his own company. The cheer, recited by
employees around the world, becomes an integral part of Wal-Mart's culture.

The Wal-Mart cheer is:

Give me a W!
Give me an A!
Give me an L!
Give me a Squiggly! (At which point, the employees do a little shimmy.)
Give me an M!
Give me an A!
Give me an R!
Give me a T!
What does that spell?
Wal-Mart!
What does that spell?
Wal-Mart!
Who's number one?
The customer! Always!

1979 Wal-Mart reaches a sales milestone
With 276 stores and 21,000 employees, Wal-Mart reaches $1 billion in sales in 1979. Having only been in existence for 17 years, the company achieves the quickest ever ascent to the $1 billion milestone. However, because of Walton's aversion to the press and his decision to remain headquartered in Bentonville, Wal-Mart's growth during the 1970s remains relatively under the radar.

Early 1980s Attempt to unionize Wal-Mart distribution center
The attempt to unionize Wal-Mart's Searcy, Ark., distribution center fails; Walton threatens to remove the employees' profit-sharing plan if the union vote passes and warns that he has more than 500 potential employees lined up to take their jobs.

1983 First Sam's Club opens
Wal-Mart begins to own and operate large, discount warehouses known as Sam's Clubs; the first opens in Midwest City, Okla. The warehouses occupy 100,000 square feet or more and are primarily targeted to small businesses. By 1987, there are more than 52 Sam's Clubs nationwide.

March 1985 Walton launches "Buy America" program
In response to the soaring U.S. trade deficit, Walton launches Wal-Mart's "Buy America" program. Noting that 1.6 million U.S. jobs had been lost between 1981 and 1984, he announces the campaign in a letter to 3,000 U.S. Wal-Mart suppliers. Wal-Mart receives much positive publicity for the campaign, but the reality is complicated, as Walton admits in his autobiography. "The remedy we envisioned wasn't some blind patriotic idea that preaches buying American at any cost," he recalls. "We, like any other retailer, will only buy American if those goods can be produced efficiently enough to offer good value."

8.2 HARRODS

8.2.1 ABOUT HARRODS

*Harringds* is a department store located on Brompton Road in Knightsbridge, London, England. The Harrods brand also applies to other enterprises undertaken by the Harrods group of companies including Harrods Bank, Harrods Estates, Harrods Aviation and Air Harrods.

The store occupies a 4.5-acre (18,000 m²) site and has over one million square feet of selling space in over 330 departments. This makes Harrods one of the largest department stores in the world together with Macy's New York (the UK's second-biggest store, Oxford Street's Selfridges is a little over half the size with 540,000-square-foot (50,000 m²) of selling space).

The Harrods motto is *Omnia Omnibus Ubique — All Things for All People, Everywhere.* Several of its departments, including the seasonal Christmas department and the Food Hall are world famous.

8.2.3 BACKGROUND

Fashion plate of 1909 shows upper-class Londoners walking in front of Harrods
Harrods was established in 1834 in London’s East End, when founder Charles Henry Harrod set up a wholesale grocery in Stepney, with a special interest in tea. In 1849, to escape the filth of the inner city and to capitalise on trade to the Great Exhibition of 1851 in nearby Hyde Park, Harrod took over a small shop in the district of Knightsbridge, on the site of the current store. Beginning in a single room employing two assistants and a messenger boy, Harrod’s son Charles Digby Harrod built the business into a thriving retail operation selling medicines, perfumes, stationery, fruit, and vegetables. Harrods rapidly expanded, acquired the adjoining buildings, and employed one hundred people by 1880.

However, the store’s booming fortunes were reversed in early December 1883, when it burnt to the ground. Remarkably, in view of this calamity, Charles Harrod fulfilled all of his commitments to his customers to make Christmas deliveries that year — and made a record profit in the process. In short order, a new building was raised on the same site, and soon Harrods extended credit for the first time to its best customers, among them Oscar Wilde, legendary actresses Lilly Langtry and Ellen Terry, Noël Coward, Sigmund Freud, A. A. Milne, and many members of the British Royal Family.

In 1898, Harrods installed the world's first moving staircase (escalator); nervous customers were offered brandy at the top to revive them after their 'ordeal'.

8.2.3 SIGNIFICANT EVENTS IN HARRODS HISTORY

- 1834: Charles Henry Harrod (1799-1885) founds a wholesale grocery in Stepney, East London
- 1849: Harrods moves to the Knightsbridge area of London, near Hyde Park
- 1861: Harrods undergoes a transformation when it was taken over by Harrod's son, Charles Digby Harrod (1841-1905)
- 1883: On December 6, fire guts the shop buildings, giving the family the opportunity to rebuild on a grander scale
- 1889: Charles Digby Harrod retires, and Harrods shares are floated on the London Stock Exchange under the name Harrod's Stores Limited
- 1905: Begun in 1894, the present building is completed to the design of architect Charles William Stephens.
- 1912: Harrods opens its first and only foreign branch in Buenos Aires, Argentina. It became independent of Harrods in the late 1940s but still traded under the Harrods name.
- 1914: Harrods purchases the Regent Street department store Dickins & Jones.
- 1919: Harrods purchases the Manchester department store, Kendals; It took on the Harrods name for a short time in the 1920s, but the name was changed back to Kendals following protests from staff and customers.
- 1959: The British department store holding company, House of Fraser, buys Harrods.
- 1969: Christian the lion was bought by John Rendall and Anthony 'Ace' Bourke. The lion was set free in Kenya after reaching maturity.
• 1983: A high-profile Provisional IRA bomb outside the Knightsbridge store kills six people.
• 1985: The Fayed brothers buy the store for £615 million.
• 1986: The small town of Otorohanga in New Zealand briefly changed its name to Harrodsville in response to legal threats made by Mohamed Al Fayed against a person with the surname of Harrod, who had used the name "Harrod's" for his shop. Other town businesses changed their store name to Harrod's in support, and the resultant lampooning in the British press led to Al Fayed dropping the legal action.
• 1994: The relationship between House of Fraser and Harrods is severed. Harrods remains under the ownership of the Fayed family, and House of Fraser is floated on the stock exchange.
• 1997: The British court issues an injunction to restrain the Buenos Aires Harrods store from trading under the Harrods name.
• 2006: The Harrods "102" store opens opposite the main store on Brompton Road; it features concessions like Krispy Kreme and Yo! Sushi, as well as florists, a herbalist, a masseur, and an oxygen spa.
• 2006: Omar Fayed, Mohamed's youngest son, joins the Harrods board.

8.2.4 PRODUCTS AND SERVICES

The store's 330 departments offer a wide range of products and services. Products on offer include clothing for every sort of customer (women, men, children, and infants), electronics, jewellery, sporting gear, bridal trousseau, pets and pet accessories, toys, food and drink, health and beauty items, packaged gifts, stationery, housewares, home appliances, furniture, and much more.

A representative sample of store services includes 28 restaurants, serving everything from high tea to tapas to pub food to haute cuisine; a personal shopping-assistance programme known as "By Appointment"; a watch repair service; a tailor; a dispensing pharmacy; a beauty spa and salon; a barbers shop; Harrods Financial Services; Harrods Bank; private events planning and catering; food delivery; a wine steward; bespoke "picnic" hampers and gift boxes; bespoke cakes; and bespoke fragrance formulations.

Up to 300,000 customers visit the store on peak days, comprising the highest proportion of customers from non-English speaking countries of any department store in London. More than five thousand staff from over fifty different countries work at Harrods. A fleet of fifty delivery vehicles make up to 225,000 deliveries every year. Approximately 11,500 energy-efficient light bulbs turn Harrods into a beacon of light each night, 300 of which are replaced every day.

There are also a number of concessions opposite the main store on Brompton Road in 'Harrods 102' such as Turnbull & Asser, HMV, Waterstones, Krispy Kreme and David Clulow Opticians.
Sale of Fur

Harrods and Mohamed Al Fayed have been criticised for selling real animal fur with regular protests organised outside Harrods. Harrods is the only department store in the UK that has continued to sell fur.

Royal warrants

The opulent Egyptian-style clothing department at Harrods, London. Many places in the store's interior have an Ancient Egyptian theme, to reflect the owner's heritage. Fayed has had the decor listed so it can never be removed or altered.

Harrods was the holder of royal warrants from:

- Queen Elizabeth II for Provisions and Household Goods
- The Duke of Edinburgh as Outfitters
- The Prince of Wales as Outfitters and Saddlers
- The Queen Mother, now deceased, for China and Glass

Harrods had held The Duke of Edinburgh's warrant since 1956, but it was rescinded by Prince Philip on 21 December 2001 because of a "significant decline in the trading relationship" between the duke and the store.

Al Fayed then pre-emptively removed all the royal coats of arms that had been prominently displayed by the business, even though other warrants were yet to expire or be withdrawn. None of the royal grantors of warrants had spent any money at Harrods since 1997, the year Diana, Princess of Wales, died.

Egyptian Cobra

On 10 September, 2007, Harrods hired a live Egyptian cobra to protect the shoe counter, guarding a £62,000 (€84,880) pair of haute couture ruby-sapphire-and diamond-encrusted sandals launched by designer Rene Caovilla.

Memorials
"Innocent Victims", the second of two memorials in Harrods.

Since the deaths of Diana, Princess of Wales, and Dodi Fayed, Mohamed Al Fayed's son, two memorials commissioned by Al Fayed have been erected inside Harrods to the couple. The first, unveiled on April 12, 1998, consists of photographs of the two behind a pyramid-shaped display that holds a wine glass still smudged with lipstick from Diana's last dinner as well as what is described as an engagement ring Dodi purchased the day before they died.

The second memorial, unveiled in 2005 and located by the Egyptian escalator at door three is titled "Innocent Victims", is a bronze statue of the two dancing on a beach beneath the wings of an albatross. The albatross is a bird that is said to symbolise the "Holy Spirit". The sculpture was created by 80 year old Bill Mitchell who is a close friend of Al Fayed and has been the artistic design advisor to Harrods for 40 years.

Mr Al Fayed said he wanted to keep the pair's "spirit alive" through the statue

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8.3 Marks and Spencer

8.3.1 About Marks and Spencer

Marks & Spencer plc (also m&s; nicknamed "marks and sparks" and "marks") is a British retailer, with 843 stores in more than 30 countries around the world, 600 domestic and 240 international. It is the largest clothing retailer in the United Kingdom.
as well as being a food retailer, and as of 2008, the 43rd largest retailer in the world. [2] most of its domestic stores sell both clothing and food, and since the turn of the century it has started expanding into other ranges such as homewares, furniture and technology.

In 1998 it became the first British retailer to make a pre-tax profit of over £1 billion, [3] though a few years later it plunged into a crisis which lasted for several years. After fostering significant growth in recent years, mid 2008 has seen share prices plunge, worth well under 50% their value of twelve months before, as M&S struggles to cope with more conservative shoppers amidst the credit crunch.

8.3.2 HISTORY

Early years

The company was founded by Michael Marks, an immigrant from Minsk (now in Belarus), in 1884 as a single market stall in Leeds. After Thomas Spencer joined the company in 1894 it was known as 'Marks and Spencer'. The site of the first stall is marked with a green and gold commemorative clock in Leeds Kirkgate Market. One of the original Penny Bazaars - in the Grainger Market, Newcastle upon Tyne - remains open to this day, and is now the smallest Marks & Spencer store in operation.

20th century

Marks and Spencer, known colloquially as "Marks and Sparks" or "M and S", made its reputation in the 20th century on a policy of only selling British-made goods. It entered into long term relationships with British manufacturers, and sold clothes and food under the "St Michael" brand (trademark registered in 1928), a name which honours its co-founder Michael Marks. It also accepted the return of unwanted items, giving a full cash refund if the receipt was shown, no matter how long ago the product was purchased. It has now adopted a 90-day returns policy.[5]

Logo used in the 1980s and 1990s

By 1950, all goods were sold under the St Michael label. Simon Marks, son of Michael Marks, died in 1964, after 56 years' service to the Company. Israel Sieff took over as Chairman. A cautious international expansion began with the introduction of Asian food in 1974. M&S opened stores in continental Europe in 1975 and in Ireland four years later.
The company put its main emphasis on quality, but for most of its history, it also had a reputation for offering fair value for money. When this reputation began to waver, it encountered serious difficulties. Arguably, M&S has historically been an iconic retailer of 'British Quality Goods'. Its business model required suppliers to commit to long term contracts solely with M&S. This approach often led to over-reliance by manufacturers on the portion of trade they did with M&S. Accordingly, when the M&S fashion buyers changed suppliers on some aspects of the company's retail clothing offering, manufacturers were left dangerously exposed: many became insolvent. This has resulted in a change of climate, and no longer is a contract to supply M&S held up as the panacea it once was.

1997 onwards

M&S's profits peaked in financial year 1997/1998.[3] At the time it was seen as a continuing success story, but with hindsight it is considered that during Sir Richard Greenbury's tenure as head of the company, profit margins were pushed to untenable levels, and the loyalty of its customers was seriously eroded. The rising cost of using British suppliers was also a burden, as rival retailers increasingly imported their goods from low-cost countries, but M&S's belated switch to overseas suppliers undermined a core part of its appeal to the public. Another factor was the company's refusal until 2000 to accept any credit cards except its own store card.[8] In addition, as an ageing and famously bureaucratic company, it was losing touch with potential younger customers, who were reluctant to shop with it. At the same time Greenbury, who had dominated the company, had his attention diverted by the Prime Minister's committee on directors' pay.

These factors combined to plunge M&S into a sudden slump, which took the company, its shareholders, who included hundreds of thousands of small investors, and nearly all retail analysts and business journalists, by surprise. The company's share price fell by more than two thirds, and its profits fell from more than a billion pounds in 1997 and 1998 to £145 million in the year ended 31 March 2001.[9]

Since the late 1990s M&S has experienced serious boardroom instability and has made a number of attempts to revive its business, with only partial success. By 1999, Online Shopping was brought in, and the company grew with new sales of fashion clothing. In 2001, with changes in its business focus such as taking credit cards, the introduction of the "Per Una" clothing range designed by George Davies, accompanied by a redesign of its underlying business model, profits recovered somewhat and M&S recovered some of its market share, but it soon became apparent that problems remained.

In 2004, M&S was in the throes of an attempted takeover by Arcadia Group & Bhs boss, Philip Green.[10] On July 12 a recovery plan was announced which would involve selling off the financial services business to HSBC Bank plc, buying control of the Per Una range, closing the Gateshead Lifestore and stopping the expansion of its Simply Food line.
of stores. Philip Green withdrew his takeover bid after failing to get sufficient backing from shareholders.\(^{[10]}\)

### 8.3.3 FINANCIAL PERFORMANCE

Until 1999 M&S's financial year ended on 31 March. Since then, the company has changed to reporting for 52 or 53 week periods, ending on variable dates.

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### 8.3.4 SOCIAL AND ENVIRONMENTAL POLICY

**Look Behind the Label**

In 2006 the Look Behind the Label marketing campaign was introduced.\(^{[11]}\) The aim of this campaign was to highlight to customers, the various ethical and environmentally friendly aspects, of the production and sourcing methods engaged in by M&S including:
Fairtrade products, sustainable fishing and environmentally friendly textile dyes. All coffee and tea sold in M&S stores is now Fairtrade.\cite{12}, in addition the company offers clothing lines made from Fairtrade Cotton in selected departments\cite{13}

At Christmas time the company introduces a range of food products to support the housing charity Shelter\cite{14} predominantly in the food to go range including a range of seasonal Christmas sandwiches.

**Plan A**

![M&S store](image)

Marks and Spencer store on Birmingham High St.

On Monday, January 15, 2007, Marks & Spencer launched an initiative, known as 'Plan A', to dramatically increase the environmental sustainability of the business within 5 years and expected to cost £200million

The plan covers "100 commitments over 5 years to address the key social and environmental challenges facing Marks & Spencer today and in the future" with the tag-line "Because there is no Plan B". The commitments span five themes: climate change, waste, sustainable raw materials, 'fair partnership' and health., with the aim that, by 2012, it will:

- Become carbon neutral
- Send no waste to landfill
- Extend sustainable sourcing
- Help improve the lives of people in their supply chain
- Help customers and employees live a healthier life-style

Despite an 18% fall in the share price in January 2008, following publication of their latest trading statement, the company confirmed that they would be continuing with the plan, saying that there were 'compelling commercial - as well as moral - reasons to do so'.\cite{18}

May 2008 has seen the introduction of the 5p carrier bag scheme at Marks & Spencer, with customers now paying 5p per standard sized vest carrier bag for food purchases. This implementation was brought about through the 'Plan A' scheme, to try to encourage decreasing use of the traditional plastic bag.\cite{19}. All profits from the sale of food bags goes to Groundwork UK.\cite{20}. However, profits have fallen significantly over the end of
2008 and so it seems that they may need to scrap their charge-for-bags policy, as sales have also recently fallen and this may be a factor.\[21\]

In becoming carbon neutral the company has committed to maximise their use of renewable energy, and to only use carbon offsetting as a last resort.\[22\] This is apparently to be restricted to cases were required by the Government or where there is no alternative technology currently available.\[23\]

As of August 2008 Marks & Spencer had three wind turbines in operation, one at Methlick and two near Strichen, generating enough power to supply three stores via the National Grid.\[24\]

### 8.3.5 MARKETING

**St Michael**

During the height of the company's troubles at the beginning of the 21st century, the *St Michael* brand used as the selling label for all M&S products was discontinued in favour of *Marks & Spencer* and a new logo in the Optima typeface was introduced and began to appear in place of *St Michael* on product packaging. The same logo was also rolled out across store fascias and carrier bags. The *St Michael* name was subsequently adopted as a 'quality guarantee' and appeared as the *St Michael Quality Promise* on the back of food products, on the side of delivery vehicles and on in-store ordering receipts. This has since been phased out, although the store-ordering receipts given to customers still feature this 'seal of approval' on the bottom.

Marks & Spencer stacked logo 2007 onwards

When Steve Sharp joined as marketing director in 2004, after being hired by new Chief Executive Sir Stuart Rose, he introduced a new promotional brand under the *Your M&S* banner, with a corresponding logo.\[25\] This has now become the company's main brand in its advertising, online presence and in-store merchandising. The clean fonts and modern colours of the new image are somewhat incongruous alongside the traditional M&S signage and associated fittings that still adorn many of the unmodernised 'core' stores themselves. In fact the only thing they have in common is the use of M&S traditional green in the ampersand of the new logo. In 2007 the same typeface used for the new
M&S logo was adopted to replace the Optima logo used on product packaging and store fascias since 2000. This new logo is also beginning to appear on new-style sewn in clothing labels and presented in its linear, non-stacked form, complete with lime-green ampersand.

The new look has been instrumental in the company's recent resurgence, particularly with the success of a new clothing campaign featuring the celebrated model, Twiggy, and younger models associated with the bohemian styles of 2005-6, and the new TV ad campaign for its food range. These adverts have the tagline "This is not just food, this is M&S food" and feature slow motion, close-up footage of various food products, described in a sultry voiceover by Dervla Kirwan, to an enticing instrumental song - most notably Fleetwood Mac's Albatross as well as Santana's 'Samba Pa Ti', Groove Armada's 'At The River' or Spandau Ballet's 'True'. These adverts have been referred to by both fans and critics as being "food porn", with a number of other companies copying the idea, such as ALDI and, most recently, Waitrose.

8.4 RISE OF RELIANCE RETAIL

Growth through Value Creation

With a vision to generate inclusive growth and prosperity for farmers, vendor partners, small shopkeepers and consumers, Reliance Retail Limited (RRL), a subsidiary of RIL, was set up to lead Reliance Group’s foray into organized retail.

With a 27% share of world GDP, retail is a significant contributor to overall economic activity across the world. Of this, organized retailing contributes between 20% to 55% in various developing markets. The Indian retail industry is pegged at $ 300 billion and growing at over 13% per year. Of this, presently, organized retailing is about 5%. This is expected to grow to 10% by 2011. RRL has embarked upon an implementation plan to build state-of-the-art retail infrastructure in India, which includes a multi-format store strategy of opening neighbourhood convenience stores, hypermarkets, specialty and wholesale stores across India.

RRL launched its first store in November 2006 through its convenience store format ‘Reliance Fresh’. Since then RRL has rapidly grown to operate 590 stores across 13 states at the end of FY 2007-08, RRL launched its first ‘Reliance Digital’ store in April 2007 and its first and India’s largest hypermarket ‘Reliance Mart’ in Ahmedabad in August 2007. This year, RRL has also launched its first few specialty stores for apparel (Reliance Trends), footwear (Reliance Footprints), jewellery (Reliance Jewels), books, music and other lifestyle products (Reliance Timeout), auto accessories and service format (Reliance Autozone) and also an initiative in the health and wellness business through ‘Reliance Wellness’. In each of these store formats, RRL is offering a unique set of products and services at a value price point that has not been available so far to the
Indian consumer. Overall, RRL is well positioned to rapidly expand its existing network of 590 stores which operate in 57 cities.

During the year, RRL also focused on building strong relationships in the agri-business value chain and has commenced marketing fruits, vegetables and staples that the company sources directly to wholesalers and institutional customers. RRL provides its customers with high quality produce that has better shelf life and more consistent quality than was available earlier. RRL has made significant progress in establishing state-of-the-art staples processing centres and expects to make them operational by May 2008.

Through the year, RRL also expanded its supply chain infrastructure. The Company is fully geared to meet the requirements of its rapidly growing store network in an efficient manner.

Recognizing that strategic alliances are going to be a key driver to its retail business, in FY 2007-08, RRL established key joint ventures with international partners in apparel, optical and office products businesses. Further, RRL will continue to seek synergistic opportunities with other international players as well. This year, RRL will continue its focus on rapid expansion of the existing and other new formats across India.
MODERN CONCEPTS

Structure

9.1 Modern Concept of Management

9.1.1 Trends in management
9.1.2 Importance of Management
9.1.3 Function of Management
9.1.4 Emerging Challenges for Management

9.2 India Retail Biz

9.2.1 The business of brands
9.2.2 Hypermarkets: The Engine of Future Retail Growth
9.2.3 Socio Economic Classes(Sec Categories)

9.3 Managing Diversity : Role of IT Technology

9.3.1 Background
9.3.2 A Conceptual Framework
9.3.3 Benefits of using tools in Diversified Global Business
9.3.4 Conclusion

9.4 Relationship Marketing in Retailing

9.4.1 Introduction
9.4.2 The Evolution of Relationship Marketing
9.4.3 Relationship Marketing Strategies in Retailing
9.4.4 Personalization
9.4.5 Special Treatment Benefit
9.4.6 Communication Benefits
9.4.7 Rewards
9.1 MODERN CONCEPT OF MANAGEMENT

“Management is art of getting things done through people.”

Management is that field of human behavior in which managers plan, organize, staff, direct, and control human, financial resources in an organized group effort in order to achieve desired individual and group objectives with optimum efficiency and effectiveness.

In the past, management was not considered as an important part of development. With industrial revolution during 17th and 18th century, several economists expressed their ‘concepts and function of management’. Only in 19th century, management became the separate field of study because business organization faced various problems regarding labour efficiency and wage payment system. In search of solution of these problems, people began to recognize management as a separate field of study.

9.1.1 TRENDS IN MANAGEMENT

Trends in Management means movement of management thought in particular direction. Management thought developed gradually, from past to present and passed through various distinct phases.

1. The a classical theory. It mainly consists of 3 theories
   - Bureaucratic theory.
   - Scientific management theory
   - Administrative theory.
   Concerned with production of efficiency and productivity through the one best way.
   Scientific method should be used to define the best way. There should be standardization.

2. The neoclassical theory
   - Human classical theory
   - Behavioral theory.
   Concerned with importance of human element in management, the theory emphasizes importance of individual within the organization. According to human relation, theory productivity is not only technical but also a social phenomenon. Workers' attitude govern productivity. Workers are motivated by social need. They respond to pressures of informal work groups. Money is not the only motivator. Workers are social and they advocated that people are different than machines.

3. Modern organizations theory (The system theory and contingency theory)
   • The system theory- concerned with total picture of interdependence and environmental influences.
• contingency theory concerned with inquires of each situation for managerial practice
The modern organizational theory is regarded as recent development in management theory. They represent integrative approach to management. There is no one best way of doing things under all conditions. Methods and techniques which are highly effective in one situation may not work in other situations. Situation plays an important role in application of management function. Functions are universal but their application is situational. Management takes a situational approach.

9.1.2 IMPORTANCE OF MANAGEMENT
1) Acquisition and utilization of resources
Management performs efficient acquisition effective development and utilization and proper coordination of resources.
2) Environmental adaptation.
Management adopts organization to changing environmental forces.
3) Goal achievement
Management achieves goals by balancing the requirement of jobs and people.
4) Problem solving.
Management solves organizational problems. It identifies and evaluates various alternatives and choose appropriate course of action.
5) Performance control.
Management measures and evaluates the actual performance.
6) Social responsibility
Management anticipate and act before hand to social expectations.

9.1.3 FUNCTION OF MANAGEMENT
1. Planning
2. Organizing
3. Staffing
4. Leading
5. Controlling

1. Planning
Planning is setting goals and deciding how best to achieve them. Planning is predetermining future. Planning is deciding in advance about what to do how to do it when to do it and who is to do it.

2. Organizing
Organizing is establishing structure. It includes grouping tasks, producing authority – responsibility structures creating channel of communication and creating coordinating mechanism.

3. Staffing
Staffing is hiring and assigning people to carry out tasks. It is filling and keeping filled positions in the organization structure. It is human resource management.

4. Leading
Leading is influencing, communicating and motivating people to perform tasks for goal achievement.

5. Controlling
Controlling is maintaining, comparing and correcting organizational
9.1.4 EMERGING CHALLENGES FOR MANAGEMENT
1. Globalization: Managers need to think globally and act locally.
2. Technology: The new economy will base on digital revolution. The development in information technology will provide greater access to management. Management will need to manage changing technology effectively.
3. Quality: Quality assurance is getting important.
4. Social responsibility: Management will pursue long term goals that are good for society.
5. Empowerment: To empower worker is a challenge to management.
6. Human resource management: Management needs to deal with diversified work force, requires visionary leadership on the part of management.
7. Organization design: Organization will be lean flat and less hierarchical
8. Cultural sensitivity: Cultural value will change across cultural influences. Organizations are emerging as cultural systems.
9. Change management:
10. Manager will face the challenge of managing change. They will need to aware specific changes and their likely impact on the practice of management.
11. Learning organization: Management needs to create learning environment. Organization of future will be predominantly knowledge based.

9.2 INDIA RETAIL BIZ

9.2.1 THE BUSINESS OF BRANDS
What are the basic ingredients that make a brand tick and help it become a Superbrand? Well, a combination of elements is responsible for making a Brand, what it is. Following is a list of important elements.

- **The Name:** The name by which a Company or its products are known.
- **The Logo:** The symbol which represents a Brand.
- **The Company:** The corporate entity of a Brand
- **The Image:** What a Brand has come to represent.
- **The Customers:** Those whom a Brand serves.
- **The Product and Services:** What a Brand offers in a market place.
- **The Promise:** What a Brand stands for- its vision, mission, goals, and objectives.

Who is a ‘Cash and Carry’ wholesaler?
Since, present government policies on Foreign Direct Investment (FDI) in India do not allow majority investment in front-end retail operations for multi brand retail retail store chains, big retailers like Wal-Mart, Carrefour and Tesco are exploring feasibility of entering the retail sector through what are known as ‘Cash and Carry wholesale’ and other back-end operations like supply chain and logistics management. While Metro AG of Germany is already in this business in India having opened its office in Hyderabad, Wal-Mart has just signed an agreement with Bharati Enterprises to enter this segment. There is hardly any clarity, however, on what is ‘cash and carry’ wholesale trade? Is it same as good old wholesale business or it has finer nuances? Since this term is now being
freely tossed around in media reports and business discussions, here is a quick take on: what is cash and carry wholesale?

**9.2.2 HYPERMARKETS: THE ENGINE OF FUTURE RETAIL GROWTH**

Hypermarkets have caught imagination of shoppers all over the country, largely on account of low prices and wide variety of merchandise that they are able to offer to their customers. All research studies suggest great future for them. While, Price Waterhouse Coopers have predicted a major part of estimated US$ 410 billion investment in modern retail in the next five years to go in the hyper and supermarket formats, many experts believe that, in less than five years, the country could see the emergence of more than 1,000 hypermarkets.

Just to cite an example, the UAE based LuLu group, as reported earlier, is setting up a 1,80,000 sq. ft. hypermarket in Kochi compared to Shoppers’ Stop 1,00,000 sq. ft. big “Hypercity” in Mumbai, which presently is the country’s biggest hypermarket.

While, Hypercity, Big Bazaar, Star Bazaar, 10 Acres, etc. are already attracting enormous customer attention, Ambanis, Bhartis, Carrefour, Tescos, and many more big names of the retail world are either implementing or fine tuning their business plans to set up even bigger and better hypermarkets. Clearly, hypermarkets are going to fuel the future growth.

While, we have been reporting on the moves being made by local and foreign players in this arena, we thought it fit to include a quick rundown on their origin, evolution and perceptions in different countries across the globe:

A “hypermarket” is a superstore which combines a supermarket and a department store. The result is a gigantic retail facility, which carries an enormous range of products under one roof, which ideally should make available to customer all her weekly routine needs in a single trip. Due to their large footprints, a typical Wal-Mart Supercenter covers 150,000 square feet, while a typical Carrefour covers 210,000 square feet of space. These stores are typically single-level enterprises, most of which, except on major holidays, remain open for long hours.

Wal-Mart (USA), Carrefour (France) and Tesco (UK) are the world’s three largest hypermarket stores. The term Hypermarche’ (French) was originally coined by Carrefour in 1962, however, the credit for pioneering the concept goes to Fred Meyer chain, which set up the first hypermarket in 1931 in Portland in the US. Fred Meyer is now a part of Kroger, the largest grocery chain in the US.

Although, the concept of hypermarkets is very popular in Japan and many other countries, it is not so popular in Germany due to statutory restrictions on size, timing, etc. Metro AG, which recently acquired the business of Wal-Mart in Germany is the biggest hypermarket chain in that country. After the success of super and hypermarkets, and amid fears that all smaller stores would be forced out of business, France has, in fact, enacted laws that makes it difficult to build them and has also restricted the amount of economic leverage that hypermarket chains can impose upon their suppliers.

**9.2.3 SOCIO ECONOMIC CLASSES (SEC CATEGORIES)**
Almost every one associated with retailing, marketing, media and consumer economics is required to deal with SEC categories. These categories are important as they help in effectively segmenting markets and targeting communication to core consumers.

Terms like, SEC A, SEC B, and the like are freely tossed around by all, however, only a few know their real meaning. Very few, for example, may be aware that many traders, who may be affluent with more spending power than most executives will fail to make the ‘high’ grade, if they are not graduates.

Although, MRUC & Hansa Research have come up with a new concept of Household Potential Index (HPI) to reclassify consumers, SEC continues to remain universally referenced classification of consuming classes. While, a detailed postings on HPI will soon follow, we explain below the basis of classification of different urban SEC categories and their relative importance in relation to marketing/retailing potential.

9.3 THE ROLE OF INFORMATION TECHNOLOGY (IT) IN MANAGING DIVERSITY IN GLOBAL BUSINESS

ABSTRACT

Diversity in the workplace presents challenge for managers. Managing diversity of a global workforce environment is more challenging for managers who are driven to do more with less. Information Technology (IT) and Globalization are among the most important factors that shape today's business. The advancement in IT has made business communities to maximize their global presence. Moreover, IT can playa critical role in the strategy of global competition. This paper explores the value of IT in managing diversified workforce in global businesses. The primary objective of this study is to understand the role of IT in the global workforce diversity in relation to global organizational effectiveness by managing its human resource issues according to local cultures, local needs, and local laws.

9.3.1 BACKGROUND

There are two significant trends in the last decade, which provide challenges and opportunities for multinational companies. The first one is the increase in global business practice. The second one is the diffusion of IT through the explosive growth of the Internet which is global in nature. IT and globalization are like two rivers that have joined creating an even larger, faster torrent (Ferranti 2000). There are many issues related to utilizing IT tools in global business. These issues are worldwide standardization of computing platforms; filtering global information flow; technical and legal issues; and cultural and language differences (Stephens, 1999). However, designing an effective global business depends on the effective deployment of IT (Boudreau et al. 1998). As organizations become more global in their way of thinking, the diversified global workforce presents new challenges for managers in general and for HR managers in
particular. The presence of these challenges is due to the fact that HR managers have to deal with diversified workforce in terms of different culture, race, background, gender, and religion. However, the main challenge for HR managers is to globalize human resource policies, practices, and values by establishing diversified training programs through IT.

Research studies have noted that IT could help managers control the interdependencies of their organizations. As the global workforce competitive environment has become more complex, so have the information needs of the decision-makers. IT tools such as Electronic Data Interchange (EDI), Database management systems, groupware, and Internet related technology (www, intranets, extranets) may help human resource managers to respond in timely manner to their global workforce competitive environment. The above tools eventually will lead to a "single point of access" that will allow an employee in a global company to access all information in the company's data warehouse regardless of its location, data structure, and storage media (Stephens, 1999). In the next section, a conceptual framework to explore and analyze the role of IT in managing the global workforce diversity is discussed.

9.3.2 A CONCEPTUAL FRAMEWORK FOR THE ROLE OF IT IN MANAGING DIVERSITY IN GLOBAL BUSINESS

This conceptual framework consists of three related components. The first one presents the dimensions of diversity among workforce members. The second component identifies the IT tools that can help in managing such diversity. The third component provides the benefits of using the IT. Diversity refers to a mixture of people with different group identities operating within the same social system (Cox & Nkomo, 1996). The factor that contributes the most to such diversity is the personality traits of employees. The personality traits are shaped by genetic, experience, culture, and religion among others. Management's acknowledgment of the personality traits such as psychological needs, cognitive ability, interpersonal styles, among others will help manager to create a diverse but a cohesive group of employees.

Table I presents many IT tools that can help in establish an effective communication channel among all employees. For example, Internet related technology (website, e-mail, chat room, discuss board, white board) could facilitate communication among diverse groups. Management can rely on such applications in promoting and encouraging discussion between the employees and employer regardless of their locations. Moreover, management can use groupware applications to enrich the decision making process among different groups.

Database Management Systems (DBMS), Internet-based applications, and Intranets are examples of IT applications that can help managers in creating a unified environment. The main purpose of such IT applications is to allow all groups of people regarding to their differences and backgrounds to share information. The effective use of knowledge and information in business practice is a vital factor in successful diversified global business.
Management can create a unified cohesiveness groups by utilizing such IT tools by provide the access to company's procedures, policies, code of ethics, etc. For people to be united they need an open channel of communication to express their views and concerns anytime. Moreover, management can use IT tools such as IOS, EDI, and Extranets to link their employees to the external environment such as customers, suppliers, and other business partners.

9.3.3 BENEFITS OF USING IT TOOLS IN DIVERSIFIED GLOBAL BUSINESS

If management utilizes IT tools as mentioned in the previous section, the following benefits could be materialized as reported in Table I.

- Sharing data and information among global locations simultaneously helps keeping the employees in a diverse workplace informed which can create a united atmosphere.
- Conducting workshops and training without traveling that will enhance diversified workers to get knowledge.
- IT tools such as the Internet, teleconference, data warehouse, and data mining can facilitate exchanging expertise among diversified workers. As a result, qualified employees will be advanced.
- Standardizations of all business aspects through IT are possible. Moreover IT can help in creating a cohesive group in a unified environment.

There are other benefits that are related to general performance of the organization such as;

- Greater flexibility in providing products or services,
- Closer relationships with business partners,
- Improved customer satisfaction,
- Shorter cycle and deliver times,
- A more competitive business
- Better inventory controls,
- Increased profits, and
- Cost reductions.

9.3.4 CONCLUSION

This paper provides a framework that answers the question "How diversity in workplace can best be managed using IT tools to produce positive results for the employees and their organizations?" The implications of managing diversity in the workforce are widespread. The assumption is that diversity brings advantages to an organization to boost productivity. The success, profit, and growth of an organization are becoming more dependent on the effectiveness of managing diverse workforce in the workplace. The goal of managing diversity in the workforce is to provide an environment in which all employees can improve creativity and productivity by providing the use of a broader range of talents, knowledge, and perspective!; in the workplace. All employees in the
workforce deserve the opportunity to use their education and experience to their abilities. IT applications can be the tools that enable managers to effectively manage diversity in global business.

9.4 RELATIONSHIP MARKETING IN RETAILING

9.4.1 INTRODUCTION

Relationship marketing refers to all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges. The theories and concepts of relationship marketing draw upon a number of distinct areas including service quality, services marketing, customer retention economics, and issues related to interpersonal and social interaction. However, the practice of relationship marketing is as old as marketing and selling.

The relationship marketing philosophy suggests that, at a macro level, retail organizations should consider their impact across a broad range of market relationships in the value chain.

These markets are customers, local bodies (govt and non-govt suppliers, and internal customers (employees). All these markets require adequate attention and importance from the retail units to build a profitable and fruitful relationship. A specific marketing strategy is also needed to address groups within these markets. The objective of relationship marketing is to attract, maintain, and enhance customer relationships with the existing and potential customer. Many retailers and marketers have now acknowledged the relevance of relationship marketing in retail strategy.

Relationship marketing is implemented through various components such as rewards, customer services, and involvement of customers in planning and execution of retail strategy. Retail stores that enact a system of rewards but neglect to have a focus on customer service fail. Only those retailers that deliver genuine benefits, based on intimate knowledge about their customers, and create a 'customer-first' mentality at all levels of their service reap the ultimate benefit: customer loyalty.

Relationship marketing, at a theoretical level, emerged in the 1990s and has ever since become an important marketing tool due to the compulsions of competition, globalization, and the emergence of more knowledgeable and demanding customers. In consumer products marketing, it is the function of retailing that has attracted the most obvious interest in the development of relational strategies. In the organized retail sector, the popularity of store loyalty cards is provided as an evidence of the wide take-up of relationship marketing in this field. It comes as no surprise that retailers, today, are interested in relational strategies.

The intimate nature of the relationship the industry shares with the ultimate consumer (compared to businesses further back in the distribution chain) suggests that the closer the retailers get to the customers, the better they can provide the services the customers seek.

The 'moment of truth' in consumer goods and services marketing is seen as that point when the consuming public comes face-to-face with the point of supply. As it is the
retailer who most often manages this interaction and who, historically, has gone beyond the mere 'service

**Indicators of Effective Relationship Marketing in Retailing**
- A high level of trust between consumer and retailer. Retailer having the consumer's interest at heart.
- A high level of commitment between consumer and retailer. A commitment to quality for both parties.
- A long time horizon (and length of relationship). An attempt by the retailer to favourably lock-in or retain the customer.
- Open communication channels between both parties with free expression, their potential interest in relational strategies becomes even more apparent.

The retailers or marketers need to have a better understanding of customers at an individual level. They should provide to the consumers specific product-related information and deliver goods targeted to their specific needs. Through this, marketers develop long-term annuity streams that translate into worthwhile profits.

Customer service is a vital part of relationship marketing. High level of customer service and satisfaction forces the suppliers and customers to have high 'switching costs'. Customer commitment is crucial for market share retention of any product, brand, or store, which is the result of effective relationship marketing. A customer who has committed loyalty to a single seller for a return of some 'valued reward' is not going to satisfy a competitor's grab for additional sales.

**9.4.2 THE EVOLUTION OF RELATIONSHIP MARKETING**

Customer relationship management (CRM) had its origins in two unrelated places. One was in the US where it was driven by technology. Under the direction of marketers, information technology and statistical algorithms were developed to increase the efficiency and effectiveness of selling what a company makes. This popularly came to be referred to as database marketing. CRM systems such as call centres, websites, customer service and support teams, and loyalty programmes were used to manage the relationship with customers.

The second place where the CRM concept developed was in business to business (B2B) marketing in Scandinavia and northern Europe. The IMP (Industrial Marketing and Purchasing) Group has been instrumental in developing our understanding about the nature and effects of building long-term, trust-based relationships with customers. These are managed by the marketing and sales departments.

They may be based as much on the structural ties between, companies as they are on personal relationships among managers. Here, the emphasis is on understanding customer needs and then solving problems or delivering benefits that create demonstrable customer value. While information technology is important in this style of CRM, it is designed to support rather than drive the customer relationship. The types of relationship that develop here are often deep and meaningful—for both the retailers and the customers involved.

In the latter half of the 1990s, the focus of database marketing began
to shift to relationship marketing. Marketers and retailers started using improved information technology to regularly communicate with a firm's customers and to base product offerings as per the consumer's buying behaviour.

Computer linkages aid communication among channel members and also have the added effect of creating a relationship between a buyer and a seller. There is an economic and non-economic incentive for both entities to remain committed to the relationship.

Relationship marketing in retailing has emerged out of two major considerations:
1. at a macro level, the recognition that marketing influences a wide range of areas including customer, employee, supply, internal, referral, and 'influencer' markets such as the governmental and financial markets; and

2. at the micro level, the recognition that the nature of interrelations with customers is changing. The emphasis is on moving from transaction focus to a relationship focus. Relationship marketing is different from transactional marketing. The differences between transactional marketing and relations are given below.

9.4.3 MARKETING STRATEGIES IN RETAILING

Relationship marketing (RM) strategies refer to any effort that is actively made by a seller towards a buyer, and is intended to contribute to the buyer's customer value above and beyond the core product and/or service efforts received, and can only be perceived by the buyer after continued exchange with the seller. Hence, RM strategies attempt to provide benefits to the buyer above and beyond the core service performance. For instance, many traditional Indian retailers treat their regular customers in a warm and personal way and also provide them with special benefits in terms of home delivery, discounts, etc. These benefits are an attempt to provide benefits above and beyond the core service performance.

Relationship marketing strategies could be a combination of one or all of the following benefits:
- Personalization benefits
- Special treatment benefits
- Rewards
- Communication benefits

9.4.4 PERSONALIZATION

Personal exchanges between buyers and sellers are important in influencing the quality of relationship. This is by no means surprising! given the fact that relationships are inherently social processes. In certain situations, buyers may develop buyer-seller relationship resembling personal friendships. There are certain 'personalized shoppers' who highly appreciate personal contact in the store. In fact, the social interaction afforded by shopping sometimes works as a prime motivator for some consumers to visit retail establishments. These persons consider retail encounters as valuable sources of social contact.
The term personalization describes the social content of the interaction between service employees and their customers. Personalization refers to the way in which employees relate to customers as people—cold and impersonal at one end, and warm and personal at the other. Consequently, personalization can be regarded as a means of showing recognition and respect for the other party. Examples of social relationship benefits include feelings of familiarity, personal recognition, friendship, and social support. One of the suggested ways of valuing a buyer's uniqueness as an individual is to address him by his name as people feel good when someone remembers their names at a later point in time. Sales practitioners often stress the importance of remembering and using customers' names. Other indicators of personalization efforts are employees' attempts to get to know a customer as a person, their efforts to engage in friendly conversations, and their exhibition of personal warmth. This corresponds to the feeling of 'being included in the communication process' and of 'being liked and treated with respect'.

Personalization leads to a positive impact in terms of increasing trust in the seller/store, customer satisfaction with the relationship, and repeat purchase.

9.4.5 SPECIAL TREATMENT BENEFIT
Consumer focus and selectivity, i.e., all consumers do not need to be served in the same way, is a key aspect of relationship marketing. If a consumer receives personalized, customized service from retailer A but not from retailer B—and if this service is valued—then the consumer will be less likely to leave retailer A for B. Customers, generally, perceive such customization efforts as preferential treatment not normally provided to the other customers.

The retailers can distinguish between at least two identifiable customer segments: loyal customers and non-loyal customers. Differentiating between loyal and non-loyal buyers enables a seller to address a person's basic human need to feel important. Most retailers use core service upgradation and service augmentation as ways to provide special treatment benefits to customers in return for their loyalty. Differentiation refers to the fact that loyal customers are provided with extra recognition in terms of better service and additional efforts that are not being made to other, non-loyal customers. By not differentiating between loyal and non-loyal customers, retailers waste resources in over-satisfying less profitable customers, while under satisfying more valuable, loyal customers.

9.4.6 COMMUNICATION BENEFITS
Communication is often considered as a necessary condition for the existence of a relationship. A seller's communication with a buyer conveys his interest in the buyer and serves to strengthen the seller’s relationship with him.

Efforts to 'stay in touch' with the customers have been identified as the key determinants of relationship enhancement in retailer-customer relationship. It is generally recognized that buyer-seller relationship! become stronger when the ease and volume of exchange between buyers and sellers increase.

The intense levels of buyer-seller communication (1) increases the probability of discovering, behaviors that generate reward!, (2) enhances the prediction of behavior of the other party and clarified! each other's roles, (3) leads to easier discovering of similarities between parties, and (4) encourages feelings of trust, special status, and closeness,
Generally, communication strategies as part of relationship marketing efforts refer to directed communication to the customers as against mass-media communication, which does not afford selectivity. However, it does not include face-to-face interaction, which forms part of the personalization efforts by the retailer. Many retailers adopt direct mail, e-mail, telephone, and SMS as means to interact with their loyal customers or members of loyalty programmes.

**9.4.7 REWARDS**

Providing customers with tangible rewards is often referred to as 'level one relationship marketing'. This level of relationship marketing relies primarily on pricing incentives and money savings to secure customers' loyalty. It implies that clients earn extra based on purchasing performance. As opposed to the previously discussed relationship efforts, rewarding efforts are of a more functional, economic nature.

Psychologists have long been interested in the role of rewards in behavioral learning and modification. According to Skinnerian exchange theory, any behavior that is rewarded will tend to be repeated, whereas behaviour that is punished is likely to be curbed.

Since various types of consumer rewarding programmes imply reinforcements that are promised and provided, consumers can be persistently conditioned for long periods of time as a result of receiving rewarding relationship efforts.

Frequent flyer programmes, customer loyalty bonuses, free gifts, personalized discount coupons, and other point-for-benefit 'clubs' are examples of these efforts. Trying to earn points on such things as hotel stays, movie tickets, and car maintenance would help customers to remain loyal, regardless of service enhancement or price promotions of competitors.

However, it is important to remember that rewarding efforts generally do not lead to sustained competitive advantages given the reality that price is the most easily imitated element of the marketing mix, that some customers may react opportunistically, and that already loyal customers may be 'unnecessarily' rewarded. Nevertheless, rewarding strategies can lead to sustainable competitive advantages if such strategies are not short-term promotional give-always, but planned and implemented parts of a larger loyalty management strategy.

Rewards should be designed to promote long-term behaviour and discourage short-term deal-seeking behaviour. Rewarding efforts refer to structured and planned marketing efforts that should encourage loyal behaviour, distinguishing it from short-term oriented sales promotions.