

# [Key drivers of retail industry marketing essay](https://assignbuster.com/key-drivers-of-retail-industry-marketing-essay/)

Retailing in the Philippines continued to show strong growth due to improved customer confidence both in the grocery and non-grocery products. Last year continued to see the evolution of a Filipino consumer. Aside from hunting for bargains, they also demanded better shopping experience.

Non-grocery retailing surpasses the growth of grocery retailing

The chained players like SM, Puregold continued to expand outside Metro Manila to tap into the key cities in the provincial areas through smaller brand formats.

About Industry

The spectrum of retail industry is quite wide, and it serves consumers through a small outlet to a huge department store. In any country, both organized and unorganized retail sectors exist side by side and the percentage of unorganized sector in developed economies is less than the developing economies like Philippines. Retail chains, Hypermarket are the examples of organized retail while mom and pop stores (sari-sari stores) and pavement vendors form the unorganized retail sector.

Philippines retail sector is growing rapidly with expanding population, rising consumer spending and the continued development of the organized retail infrastructure. Also, the country’s youth population is growing which will again benefit the retail industry growth. With the increase in remittances, and most of it going into consumption rather than investments, the retail industry is poised to growth. In urban areas in particular there also are increasing numbers of dual-income, middle-class families and young professionals who are boosting retail sales.

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According to Planet Retail, the sector grew at a CAGR 15. 5% from 2005 to 2010, and is expected to continue to grow at a CAGR of 11. 3% from 2010 to 2012. Hypermarkets and supermarkets are expected to be among the fastest growing retail formats within the modern food retail sector, with an expected CAGR of 28. 3% and 27. 1% respectively from 2010 to 2012[1].

## Key drivers of retail industry:

Economic growth: The increased disposable income resulting from economic growth has spurred higher spend on retail as consumers look out for preferences and become brand conscious. This gives firms the chance to target the large middle class who were earlier hard to reach because of their price sensitivity.

Demographics: As the demographics change, the consumer demand also shifts, favoring certain products over others. Hence it’s important for the retail industry to look out for these demographic changes and realign themselves to be ready to cater to the changing demands.

Urbanization: As people move into the urban areas and spend long hours at work, they require products that make life easier for them. Retail industries have sprung up to cater to these needs in the form of ready-to-eat food and affordable readymade clothing.

Credit availability: The availability of credit spurs a proportional growth in spend. However the extent of spend is also dependent on the culture of the place – some cultures tend to be credit loving while others tend to discourage too much use of credit in everyday life. In Philippines, credit does spur growth, though on a moderate scale.

Supply chain: A superior and well established supply chain ensures that the products are more accessible to the customers, improving demand-supply matching. This also reduces inventory costs and spurs sales.

## Key terms/ratios in Retail Industry:

Same store sales: This allows us to compare what proportion of new sales is coming from sales growth compared to the opening of new stores.

Sales per square foot: Store space is considered to be a productive asset and is the key to profitability.

Inventory Turnover: (Sales/inventory) It defines how many times the inventory of the store is sold or replaced over a specific period of time.

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## Porter’s 5 Forces (Organized Retail)

## Conclusion: (Attractive Industry)

Buyer’s Power: Buyer’s power is high as there are quite a few players in the market as well as there is a huge unorganized retail sector.

Supplier’s Power: Historically, retailers have tried to exploit the relationship with the suppliers.

Threat of new entrants: Given the large capital investment in setting up organized retail, the threat of new entry is low. In addition to capital, a firm would also need to establish efficient supply chains and train labor to handle the complex systems and the large number of customers. All this investment and effort makes the entry difficult.

Threat of Substitutes: Given the large number of stores in the unorganized sector, the threat of substitutability is high as the small sundry stores sell the same items and have a better connect with the customers who live nearby.

Rivalry: Retailers faces stiff competition, from other organized retail stores as well as from the unorganized sector. Given that a majority of the items sold are commodity products, and the customers have a large choice in front of them, it’s easy for the customer to switch. Hence the retail store has to constantly formulate strategies and promotions to attract and keep the customers.

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## Key Success Factors:

People: Customers have direct contact with the store people, customer service is very important in the retail industry. Retailers should focus on customer relationships to ensure their loyalty. When the players increase in the industry customer retention is the key.

Location: Sales is dependent on where the store is located. Retailers have to be on their toes to find out the new markets. They need to increase their revenue by exploiting the competitive advantage and economies of scale.

No. of stores: It defines how many customers you can reach and is an important factor to increase the number of customers and in turn the sales. Also retailers need to look for the e-business opportunities.

Price: Price plays an important role in defining the segment and economic class the company is targeting.

Promotion: It’s important to keep the customer attracted to the store by offering promotions that will interest them and keep them coming back to the store.

Assortments: Choices are important for keep the customers interested in the store.

Relationship with suppliers: relationship with suppliers is of major importance as this will have a major impact on the income statement. Good relations can lead to lower costs and increase in the bottom line.

Information Management: By employing analytics tool, the firm can track and manage information about its products, inventory, customer preferences and competition. This data can then be used to customize offers, manage inventory, reduce costs and take key decisions regarding strategies countering the competition. Such measures will help in better customer service, reduced costs and increased revenue.

Innovation/Technology: One of the challenges is to improve the way retailers innovate to provide better goods and services to customers. Retailers need to exploit the development of new and evolving technologies such as e-business. They need to adopt a flexible strategic vision to meet the challenges.

Major Players

There are two listed companies in the retail sector namely Puregold Price Club and Philippine Seven Corp. Puregold stock has gained 47% year to date while Philippine Seven has gained 131%. 2011 saw the highest number of store openings in the history of Puregold and they are expanding aggressively. Philippine seven operates retail chain of convenience stores and operated 690 stores at the end of December 2011.

Puregold and Philippine seven don’t compete directly with each other. For Philippine seven the biggest competitor is Ministop. Puregold has many competitors, Robinsons, SM, Rustan’s, Supervalue etc.

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Company

Market Cap (Mn Pesos)

Puregold Price Club Inc

73, 448. 19

Philippine Seven Corp

20, 798. 4

Industry’s Growth & Outlook

The Philippines retail sector is expected to see continued growth in the current year with the increase in consumer spending as the economy continues to expand and inflation rate remains contained. Also, the low interest rates will increase consumer spending.

Source: Bloomberg

The increase and the positive outlook of the domestic growth along with this the increase in inflow of remittances by the Philippines workers employed overseas will help in the consumer spending.

Inflation has been maintained within benign levels and will help in preserving the purchasing power of the consumers. Inflation is expected to remain in the range of 3-5% enhancing the purchasing power of Filipinos.

Consumer optimism is also increasing on the back of favorable macroeconomic indicators and on the belief that the economy will perform better in 2012.

The positive outlook has also prompted many players to expand their operations.