

# [Modern retail on traditional formats scm applications marketing essay](https://assignbuster.com/modern-retail-on-traditional-formats-scm-applications-marketing-essay/)

Indian retail industry has always played an important role in improving the GDP growth rate and lifestyle of the country. The industry which traditionally comprised on mom and pop stores spread hither and thither is in the revolutionary phase in the present era. The way retailing is done has come a long way with the emergence of organised or modern retail outlets. There are big players like Big Bazaar, Spencer’s and Vishal Mega Mart to name a few who have changed the face of retailing in India. These modern retail outlets have enormous financial and technological support as compared to the traditional and unorganised retail outlets. An attempt is made in this paper to study the evolving formats of modern retail and to know their impact on the traditional distribution partners like retailers and distributors. This paper also throws light on the supply chain management tools used by the modern retail outlets through case analysis.

Impact of Modern Retail on Traditional Formats & SCM Applications

Abstract

Indian retail industry has always played an important role in improving the GDP growth rate and lifestyle of the country. The industry which traditionally comprised on mom and pop stores spread hither and thither is in the revolutionary phase in the present era. The way retailing is done has come a long way with the emergence of organised or modern retail outlets. There are big players like Big Bazaar, Spencer’s and Vishal Mega Mart to name a few who have changed the face of retailing in India. These modern retail outlets have enormous financial and technological support as compared to the traditional and unorganised retail outlets. An attempt is made in this paper to study the evolving formats of modern retail and to know their impact on the traditional distribution partners like retailers and distributors. This paper also throws light on the supply chain management tools used by the modern retail outlets through case analysis.

Introduction to Indian Retail Industry

Indian Retail industry, the industry which stands second in terms of employment generation after agriculture is undoubtedly characterized by the widely dispersed retail outlet situated at each nook and corner whether its urban India or rural. It is the industry which is unlikely known for its unorganized formats. Paanwalas and kiranawallas, street hawkers present everywhere are the various firms operating hither and thither; and meeting the basic needs of the general public and creating a means of earning livelihood for many. In India, the retail industry is broadly divided into the organized and unorganized sectors. The total market in 2005 stood at Rs. 10, 000 billion, accounting for about 9-10% of the country’s gross domestic product (GDP). Of this total market, the organized sector accounted for Rs. 350 billion (about 3. 5 % of the total) of the total revenues. According to AT Kearney, the organized retailing industry is expected to cross Rs. 1000 billion revenue mark by 2010. Traditionally, the retail industry in India comprised of large, medium and small grocery stores and drug stores which could be categorized as unorganized retailing. Most of the organized retailing in India had recently started and was mainly concentrated in metropolitan cities. Within a short span of five years retail sector in India has witnessed great changes mainly on account of a gradual increase in the disposable incomes of the middle and upper-middle class households. In order to reap the benefit of growing economy more and more corporate houses including large real estate companies are coming into the retail business, directly or indirectly, in the form of mall and shopping center builders and managers, hence the sea change in retail sector is highly evident.

Indian Organized retail Sector and the Major Players:

The Industrial Policy Resolution, 1991 has given a new tool known as ‘ LPG’ i. e. Liberalization, Privatization, and Globalization which resulted in several structural and demographic changes of the Indian Economy. These changes marked the beginning of the new era of Retailing in India and helped the retail industry to grow. Besides this last decade has witnessed the growth of GDP at the rate of 6. 6 per cent, resulting in increased income levels and higher purchasing power for the population. ‘ Though the early signs of organized retail were visible even in the 1970s when Nilgiris (food), Viveks (consumer durables) and Nallis (sarees) started their operations’ but the retail still had a long way to go. ‘ While these retailers gave the necessary ambience to customers, little effort was made to introduce world-class customer care practices and improve operating efficiencies. Moreover, most of these modern developments were restricted to south India, which is still regarded as a “ Mecca of Indian Retail”. Turn around in Indian retail has taken place in various phases and the journey is still in continuation. Notable among the early entrants were players like Shoppers Stop, Pantaloon, Ebony, Foodworld, Subhiksha, etc.  Thus one can easily make out that the major players of organized retail sector in India are:

Figure 1

The Study

## Research Problem:

The aim of this paper is to study the emergence of modern retail and its impact on traditional channel partners like retailer and distributors. The research problem can be formulated in terms of following questions: What are new retail formats? What supply chain management tools are employed by modern retail? What impact these outlets will have on retailers and distributors? The provide answers to these questions, the objectives of the study are:

To study the emerging retail formats

To study the impact of modern retail outlets on the traditional distribution system

To study the variety of SCM tools employed by the modern retail formats

To analyze the role of SCM application in modern retails formats

## Research Methodology:

To gather the required information for this study, both secondary and primary source of data was used. Active primary data was collected from the retailers and distributors in both the cities through structured personal interviews. The information other than this was collected through traditional secondary sources like journals, news articles, websites and books.

The scope of the study is limited to the two cities Moradabad, Uttar Pradesh and Delhi, India. These cities differ in terms of their population, demographics, size and volume of business and the marketing strategies used by the non-durable and durable goods manufactures in two different cities. Further they are un-researched in this aspect.

## Sample profile of respondents:

The data was collected from the various types of retail formats dealing in consumer non-durable and durable goods like tooth paste, soap, chocolates, cold drinks, refrigerators, mobile phones and televisions. The inclusion criterion was the availability of the products chosen for the study. Following tables describe the sample profile:

Sample of Dealers/Retailers

## Sample Descriptors

## Profile of Durable Goods Dealers

## Profile of Non-Durable Goods Retailers

Sample Size (N)

50 Retailers/Dealers

50 Retailers

Area

Moradabad and Delhi

Moradabad and Delhi

Retail Format

Multi Brand Outlets, Exclusive and

Dealers cum distributors

General Store / Provisional store Confectionary Store, Supermarket, and Departmental Store

Inclusion Criteria

Availability of Products

Availability of Products

## Table 1. 1

Sample of Distributors

## Sample Descriptors

## Profile of Distributors

## Profile of Distributors

Sample Size (N)

30 Distributors

15 Distributors

Area

Moradabad and Delhi

Moradabad and Delhi

Brands

HUL-5, Godrej-3, Cadbury-4, Pepsi-4, Coke-4, ITC-5, Pillsbury-3, Nestle-2

Sony-1, LG-2, Samsung-2, Nokia-2, Motorola-2, Neelkamal-2, Supreme-2 and Whirlpool-2

Inclusion Criteria

Availability of Products

Availability of Products

Table 1. 2

Emerging Retail Formats in India

India is watching resurgence of Retail sector whereby it has grown from the traditional Mom and Pop stores present here and there in the neighbourhood catering to the convenience of the consumers to the emergence of shopping centers mainly in urban centers with facilities like car parking and finally growth of modern retail formats like hyper and super markets trying to provide customer with ‘ 3 V’s- Value, Variety and Volume’ (Lakshmi Narayanaswamy, Mudit Sharma,). A brief description of the various modern formats of retailing emerging in India:

i. Malls:

Malls are an upcoming trend in retail market. They form largest share of organized retailing today. Located mainly in metro cities, in proximity to urban outskirts. Ranges from 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. Examples include DLF City Center, The Metropolitan and Big Bazaar around Delhi, Crossroads and R-Mall in Mumbai and Spencer’s in Chennai are revolutionizing the way middle class Indian consumers shop. These malls have very efficient and effective supply chains which ensure product availability and tracking of the product is feasible easily.

ii. Specialty Stores:

A specialty store concentrates on a limited number of complementary merchandise categories and provides a high level of service in an area typically under 8, 000 square feet (Levy, Michael 2006); Chains such as the Bangalore based Kids Kemp, the Mumbai books retailer Crossword, RPG’s Music World and the Times Group’s music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors. Since this format has less diverse product range thus it is comparatively easy to manage supply chains.

iii. Discount Stores:

According to Levy and Weitz a Discount Store is a retailer that offers a broad variety of merchandise, limited service, and low prices. Discount stores offer both private labels and national brands, but these brands are typically less fashion-oriented than brands in department stores. The 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. The coverage of products in this kind of format is quite extensive and the demand fluctuation is also high thus if offers challenges in managing supply chains effectively.

iv. Department Stores:

Levy and Weitz defines Department stores as the retailers that carry a broad variety and deep assortment, offer some customer services, and are organized into separate departments for displaying merchandise. These are the large stores ranging from 20000-50000 sq. ft, catering to a variety of consumer needs. They can be further classified into localized departments such as clothing, toys, home, groceries, etc. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja’s Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30, 000 sq. ft) across India and even has its own in store brand for clothes called Stop!. It is one of the most complicated retail formats catering to the most diversified set of consumer needs. It becomes very difficult to manage the inventory of so many products and brands.

v. Supermarkets:

‘ As defined by Food Marketing Institute “ Supermarket is self-service food store with grocery, meat and produce department and minimum annual sales of 2 million”. In India, there is growing number of such stores especially in metros and big cities’ (Anjali, Gupta 2006). 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 of 3, 500 sq ft to 5, 000 sq ft. having a strong focus on food & grocery and personal sales.

vi. Hyper Market:

Combination food and drug stores average 4, 600 square meters of selling space. Hyper markets are even larger, ranging between 7, 400 and 20, 400 square meters. The Hyper markets combines supermarket, discount and warehouse retailing principles. Its product assortment goes beyond routinely purchased goods and includes furniture, large and small appliances, clothing and many items. The basic approach is bulk display and minimum handling by stores personnel, with discounts offered to customers who are willing to carry heavy appliances and furniture out of the stores. Pantaloon Retail India Ltd. (PRIL) is now emerging as India’s first Hyper Market chain. Modeled along the lines of global Hyper Market Chains like Wal-Mart, the Big Bazaar will stock several product categories.

vii. Convenience Stores:

These are relatively small stores 400-2, 000 sq. feet 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.

viii. 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.

Supply Chain Management Tools Employed by Modern Retail Formats:

The rate at which transformation is taking place in Indian Retail Sector is unprecedented; the entire retail sector is under going sea changes. The organized retail sector is no doubt having a vast ocean of opportunities in front of it but it possesses certain challenges too. The task of an effective and efficient retailer is to satisfy the customer at the right time with the right product at the right cost, all the time. The challenges that a retail organization faces are many like: huge stock-keeping units (SKUs), seasonal variations of product lines necessitating the introduction of new SKUs, complex tax structures, the sheer geographic spread of the country, changing consumer demands, etc. This level of efficiency calls for retail automation and integrated supply chain management on the part of retailer and a retail organization has to plan to make this system work properly and try to satisfy the needs of every customer without fail.

The discovery of automatic identification technologies has been a boon to retailing; they were first introduced globally in the 1960s to assist logisticians identify products in the supply chain. Following are the recent developments in the technologies to trace the goods in the supply chain:

i. Barcodes & Multi-dimensional barcodes:

Corporations have become obsessed with driving down logistics-related costs, including transportation and warehousing. In order to facilitate the movement of goods in transit and to reduce the cost of transportation and to ease the process all most all items in a distribution centre are marked with UPC barcode. In fact, Walmart’s buying office has a sign reading, ‘ If Your Product Doesn’t Have a Barcode, Don’t Bother to Take a Chair in Our Waiting Room.’ Even in India the Retailers in organized sector are beginning to barcode all their products; organizations like Foodworld (RPG Group) and Shoppers’ Stop (Raheja Group) have urged their vendors to supply merchandise only with standard barcodes.

ii. RFID:

Radio Frequency Identification (RFID) is an early technology starting to emerge. In order to stop the pilferage of goods in over crowded retail stores this technology plays a great role. It is expected that in coming few decades, RFID will directly connect physical products to logistics systems as the only truly automatic identification technology. This technology helps to track the product and customers’ use pattern even post-purchase. P& G currently tags (RFID) a small number of cases and pallets of products as part of a trial with Wal-Mart stores in USA. The company is focusing on the supply chain and has not even begun to think about what’s going to happen to the items post-sale.

iii. Retail Software:

Most retailers in the organized sector in India have to use retail software in their back end and front end operations and are constantly looking to upgrade their systems as they evolve. To help this growing retail sector get the best, many Indian software companies have developed software packages to suit the different and varied requirements of these retailers. Among the few who are in. the market is Chennai-based Polaris Retail InfoTech Ltd, a subsidiary of Polaris, which has entered the market with its software, Retail Excel. Reputed organizations like Wipro Infotech, Tata Consultancy Services and NCR Technologies have created robust, retail automation software. The Chennai-based T. V. Sundaram Iyengar & Sons are currently test-marketing their new point-of-sale system for small and medium retailers in grocery and other related segments. The Bangalore­ based VMoksha Technologies has developed software for the retail segment while Pune-based Zensar Technologies has tied up with the RPG group for retail software. The list of that developing retail software is growing by the day. There are many other packages like MS Retail, Shopper, Retail Pro, Retail Magik, etc. that help enable the fast implementation of retail automation in India available in the market. Not to mention large ERP packages like IDA, SAP Retail, BAAN, Island Pacific, etc.

Analysis and Findings

Impact of Modern Retail Outlets on Traditional Distribution System:

The number of modern retail outlets is growing day by day. The customers show shopping preference for these outlets but the extent to which they will influence the traditional retail is uncertain. There are certain categories of products which customers prefer to shop from the modern retail outlets. While the customers still prefer neighbourhood retail stores for their daily groceries and requirements. The analysis of the data collected from traditional channel partners is:

The data was collected by the traditional retailers dealing in non-durable products in Delhi and Moradabad to know the impact of modern retail on their business. It was observed that in Moradabad 70% of the retailers feel that the impact of modern retail formats will be important and they too need to work on their formats to meet the customer and companies’ requirement. Other 20% said it is going to have average influence on their business and it can be cope-up whereas 10% retailers were of the view that it will not have influence on their business. They also opined that they are in operation from last so many years and facilities like home delivery and credit which they provide to their customers are not provided by these new formats. While retailers in Delhi were of different opinion, 15% retailers pointed out that modern format have already influenced their business highly and their sales have decreased by 50% and other 40% said that the influence is important on their business and they need to react accordingly. Around 40% retailers said that it is having average influence whereas 5% retailers located in the residential areas said that the influence of the modern formats is unimportant for their business.

Figure 2

The data collected from the durable products dealers also reveals the mixed response towards the growth of modern retail outlet. In Moradabad 70% of the dealers said the impact of modern retail will be important and they too need to work on their formats to meet the customers’ expectations and companies’ requirements. Other 30% retailers were of the view that the facilities like home delivery and credit which they provide to their customers will help in marginalizing the impact of new formats. While dealers in Delhi were of different opinion, 15% dealers pointed out that modern format have already influenced their business highly and their sales have decreased by 50%. Other 40% said that the influence is important on their business and they need to react accordingly whereas 5% retailers located in the residential areas said that the influence of the modern formats is insignificant on their business.

## Impact of Modern Retail on Traditional Retail Outlets

0%

10%

20%

30%

40%

50%

60%

70%

80%

Highly

Important

Important

Average

Unimportant

## Importance

## Percentage

Moradabad

Delhi

Figure 3

Apart from retailers, modern retail outlets also have influence on the distributors. It was observed from the data collected by the non-durable distributors that 70% distributors of different non-durable brands under consideration said that the impact of the modern retail formats on their business is going to be moderate as they are the one who supply to these formats. But other 20% said that the big modern retail outlets make purchases directly from the companies thus their will be significant impact. While other 10% feels that the impact is going to be high.

Figure 4

Majority of the distributors dealing in consumer durables like Mobile Phones said that the impact of modern retail is going to be high because outlets like Big Bazaar, Subhiksha have already started procuring directly from the companies and they pass on the margins to the customers. While for products like CTVS, refrigerators and moulded furniture the impact is going to be moderate and distributors can provide better geographical coverage and inventory turnover. They also shared that may be in near future, the companies seeking advantage of reducing the distribution margin through direct supply to these outlets can lead to have moderate impact on their business.

## Impact of Modern Retail on Durable Goods Distributors

0%

10%

20%

30%

40%

50%

60%

70%

80%

90%

Very High

High

Moderate

Low

Very Low

## Degree/Products

## Responses

Mobiles

T. V./Refrigerators &

Moulded Furniture

Figure 5

Case-Study Analysis of SCM Applications in Modern Retail-

(a) TANISHQ

Tanishq is a division of Titan Industries Ltd, India’s largest jewelry maker. It is India’s only fine jewellery brand with a national presence, and an acknowledged leader in the branded jewellery market. Tanishq is sold exclusively through a company-controlled retail chain with over 60 boutique stores spread over 39 cities. This network is supplied and supported by a network of 32 CFAs (Clearing and Forwarding Agents). With the network of boutique stores poised to grow, the Tanishq management had to increase visibility along the supply chain, CFAs and boutiques across the country. The Tanishq team picked Wipro Infotech, India’s premier IT solutions company, to put together the solution. The Wipro Infotech team designed a web-based solution, Goldmine, to facilitate the flow of information between various distribution entities. Goldmine offers a platform for the sales, management and factory teams of Tanishq to monitor key activities and parameters along the’ distribution chain. It also serves as an integration platform to pull together existing information systems in the company such as SAP/Oracle, DOS-based point-of-sales systems in boutiques, without modifications. Wipro Infotech developed the solution using the . NET framework with an ASP . NET presentation layer.

Challenges addressed: The most significant supply chain management issues addressed by Tanishq are in the areas of reducing cycle time, increasing efficiencies and reducing costs in the areas of tracking movement of goods and sales indenting, order status, sales visibility, communication (reports) and exception reporting.

Goods in transit: The new system provides details of goods that have been dispatched from the factory to the CFA and then to the boutiques. This functionality also enables tracking of stock return cases from the boutiques to the CFA. And from there on to the factory. This helps the organization track goods in transit and monitor loss of goods effectively if any.

Indenting: The ordering of goods by the boutiques is automated. They can refer to online product catalogues and price lists before placing orders. Goldmine enables online indenting for replenishment, shop-specific indenting as well as customer-specific indenting. Such online indenting is based on norms set by the administrator for each variant. Hence, the company can enforce prudent credit norms through Goldmine at the point­ of-sale system. Say a boutique has a great track record, selling Rs 20, 000­25, 000 worth of bangles, but not up to the Rs 50, 000 level it had reached in the past, the company can set prudent indenting levels for gold for that boutique. This information is transmitted to the point-of-sale system via Goldmine and is actually enforced. Previously, under the manual system, the company had no means of systematic enforcement of such norms. .

Order status: This functionality provides visibility on the status of orders placed by boutiques. This is made possible by the daily synchronization between the Oracle system at the factory and the web-based solution. Boutique users no longer have to send emails or call up anyone to find out the status of their orders. They get it at their own convenience from Goldmine.

Sales visibility: With sales information flowing in from the boutique into Goldmine, visibility of sales from each boutique is improved. Management can now track the effectiveness of marketing programmes and promotions at the boutique level, according to category and price band. Bestseller information for all boutiques is currently available on demand.

Communication and exception reporting: Goldmine provides a platform for dissemination of information through content uploads, bulletin boards, and so on. Information on local gold rates (the most important component of material cost), market information, promotion scheme details and product catalogues are transmitted in real time. The company has over 40, 000 product variants, so this system capability is crucial. The system also provides for discussion on queries raised by users at the boutiques for producing and modifying new and existing products. Discussions between factory users and’ boutique users are tracked and an escalation mechanism with alerts is in place in case queries are not handled promptly.

Future plans: As Goldmine builds up the supply chain database, Tanishq intends to build a data warehousing application enabled with advanced data mining using SQL server. This will facilitate the use of relevant business intelligence in real time in the boutiques during a customer touch. Market leader Tanishq will set its benchmarks in retail automation and its applications for many in the industry to follow in future.

(b) SHOPPERS’ STOP

Shoppers’ Stop has implemented the US-based retail ERP system JDA. JDA facilitates the integration of all retail functions in Shoppers’ Stop efficiently.

Efficiencies in the buying process: It is JDA’s merchandise management system that now performs the buying process and merchandise management control practices. Pursuant to range width and assortment plans, purchase orders are issued to suppliers through the central merchandising function. The actual delivery of stocks is then controlled on a weekly basis through the delivery authorization process mechanism. The delivery authorization number acts as a tool to control the overall inventory position. The delivery authorization is issued to vendors on a weekly basis based on the previous week’s actual sales and on the forward sales plan (forecast). The vendors then despatch the goods to the distribution centre based on the purchase order and delivery authorization. Every distribution centre gets a copy of the delivery authorization issued for the week. At the distribution centre support is provided by the ‘ warehouse management system’ (WMS) of JDA, which manages the warehousing function most efficiently.

The challenges at Shoppers’ Stop are the spread of the 14 stores across the country in varying large sizes, ranging from 25, 000 sq ft to 55, 000 sq ft, the large SKU base, etc. Also, it has more than 300 suppliers who supply stocks to three distribution centres, which then redistribute merchandise to the 14 stores. Variety, colour and size of merchandise play a very important role in delivering a great shopping experience to the customer.

Profitable growth: Shoppers’ Stop views SCM as an enabler of profitable growth; it firmly believes that ERP, if used well, can cut costs greatly by reducing cycle times and inventory levels. One of the key drivers of the profit-driven operation is the significant development in the retailer-supplier information integration in the supply chain – the emergence of retailer control over the movement of suppliers’ goods into the retailer’s distribution centres. This has led to more complex relationships involving suppliers, third-party distributors and retailers through supplier-retailer collaboration where major suppliers and retailers have the opportunity to exchange timely information on consumer demand and put into practice the most appropriate product flows.

SCM at Shoppers’ Stop: SCM at Shoppers’ Stop coordinates and integrates all activities associated with moving products, services and information into seamless processes linking all the partners in the chain, including the various departments, vendors, transporters and other service providers. The system facilitates perfect supply chain coordination with an able information system that controls all SCM activities. SCM at Shoppers’ Stop begins and ends with the customer. The guiding philosophy is to improve the organization’s performance by managing constraints and uncertainties inherent in the earlier system. The focus is on using new tools and techniques. The first step in SCM is merchandise planning and sourcing.

In Shoppers’ Stop, SCM is seen from a strategic perspective rather than just as an operational issue. Core supply chain issues such as month-end sales peaks, forecasting inaccuracy, constraint-based planning and so on continue to create problems for Indian retailers even after ERP implementation. Many organizations implemented SCM as a tool to contain costs. and identifying means for reducing pressure on margins due to competition. The mindsets of organizations underwent a transformation when they accepted to consider the use of such integrated SCM from end-to­ end. The first step in SCM is merchandise planning and sourcing. The range width and assortment planning process is used to develop meaningful sales and space plans. The planning process starts six months before the actual beginning of the season to fill an agreed amount of footage with a product that matches customer demand. The challenge is to develop a balanced range which provides the appropriate mix of colour, price, styling and fabric so that the customer is given the best possible choice at all times. Also on the agenda is having a mix of own-label products and brands in such a way that it aligns with the company’s strategic goal of increasing own-la