

# [Retail sector coursework example](https://assignbuster.com/retail-sector-coursework-example/)

### Introduction:

In conducting the research for this coursework a number of sources of data have been used. In the first instance, the bulk of the research conducted has been done making use of secondary sources of research, including books, journal articles, company annual reports and items from the business and trade press. Secondly, where relevant the researcher has also made use of a number of contacts within the retail sector which have facilitated primary research into a number of the companies which have been used as case study examples in the coursework. Primary research was conducted in the form of a number of informal style interviews with a relevant management level employee of the organisations in question.

### P. 1 The Structure of the Retail sector

### Types of Retailers

At present the UK may be seen as having a wide variety of retailers all with a range of corporate and organisational objectives. In general terms, the UK retail sector may be divided and segmented on the basis of product type. Major retail groupings include the food retail segment, clothing segment and other non-food based segments which include electronics, DIY and other forms of specific fast moving consumer goods (FMCG). Those operating within such product segmented retail segments range in size from single one man operations with a sole trader legal status to large multi-national retail companies offering standardised products and services on an international basis.

In addition to these core segments, one should also consider the not for profits retail segment. This includes a wide range of retailers for whom the objective is the generation of a surplus rather than a profit. The surplus is then used to fund the underlying objectives of the not for profits organisation, usually associated with a charitable cause. Whilst the not for profits sector is often associated with low end cost leadership retail models this is not the only model used. Recent developments have seen not for profits organisations such as Oxfam embracing the premium end of the segment with the opening of the organisations flagship Bond Street store. In addition, other organisations such as the Co-operative bank offer a range of financial products and services within the retail banking sector which are of comparable quality to those of the for profits retail banking and financial services sector .

One bone of contention may be to consider the supermarket segment as a separate sub-segment of the retail sector altogether. Whilst the supermarket sector may be seen as having its origins in the food retail sector, the consideration is that such businesses have in recent years become diversified businesses which only retail food and food related products as a part of their total business. In actually fact the true success of many in the modern supermarket sector relies on the ability of such businesses to be able to market a wide range of diversified products from food to financial products and services.

### Sales trends:

The UK retail sector is worth an estimated £265bn annually which accounts for 8% of the entire countries GDP, this is estimated to grow to £312bn by 2011. Of the total retail sector, a large part of the sales come from the food based sub segment, however the total retail segment is made up of a wide range of retailers marketing a variety of goods including food, clothing, electronics and other fast moving consumer goods.

A present, due to the recent economic downturn, sales within the UK retail sector are seeing their slowest rate of growth since April 2006 at just 2. 3% higher than a year ago. Despite this down turn in the rate of growth a more positive view would be that despite difficult trading conditions growth in the sector has been maintained, with the sector not suffering the consequences of a contraction in sales. In considering how the economic downturn has affected the retail sector there are multiple views. Some, such as Anagboso and McLaren indicate that non-food retailers have done better in the recession as a function of falling prices in the underlying input goods, which has led to a boost in profits. Others argue that it is the food retail sector which has been more resilient due to the necessity nature of the goods sold by incumbent suppliers.

### Location and Size:

Considering the location and size of retail outlets, this is an area which has seen a large transformation in recent decades. In past eras, the high street was the focal point of the consumer retailing experience, with an emphasis placed upon the presence of many small to medium sized stores located within the centre of towns and cities.

However, over time the retail model as shifted with stores becoming every larger in physical size and the range of goods offered to consumers. As such, this has led to a pattern of retailers moving into out of town locations in which large scale stores are opened using a hypermarket or warehouse format. Whilst there has been much criticism of retailers for abandoning the high street in favour of more convenient and easy to service out of town locations. One consideration is that such larger establishments and shift in location mirrors the changing nature of society, which has seen an increase in car ownership and a preference for standardisation of goods and services offered on a national basis.

### Trends in the Number of Retailers:

Overall sources would seem to indicate that the number of retailers within the UK retail segment has decreased in recent years through a pattern of industry consolidation and merger and acquisition activities.

One of the key drivers of the consolidation within the industry may be seen as the emergence of the modern form of the supermarket. Initially the supermarket was a part of the retail sector associated with the sale of primarily food and food related products. However, over time the supermarket sector has in itself diversified and now sells a variety of products which were all previously only obtainable from alternative retail establishments such as clothing, electronics and financial products and services. As such, consumers now have less of a need to make use of the services of retailers who have stuck to a core set of products, consumers instead showing a preference for the convenience of being able to buy a multitude of goods and services in a single retail out let. The result for the sector has been a reduction in the total number of players in the retail market in favour of a smaller number of diversified retail businesses.

However, consumer convenience is not the only driver of consolidation within the industry. Price is also another factor of importance, sources indicating that along with convenience price is one of the single most important factors in determining the spending habits of consumers. As such, a smaller number of larger players in the market are able to deliver ever lower prices through what Porter would have referred to as a cost leadership strategy. As such, consumers opting for low cost providers will naturally create a preference for a smaller number of large players, as opposed to a larger number of small retailers, who are unable to benefit from the larger economies of scale of larger establishments.

### Employment:

At present the UK retail sector employs a high proportion of the total number of people in employment, it is estimated that currently 3 million people in the UK work within the retail sector. This accounts for around 11% of the total work force of the UK.

Despite the growth of the sector, the general trend in employment within the retail sector is one of a downward trend. Sources indicate that over the past five years the number of employees within the sector has declined by 76, 000. Whilst some of the reduction may be attributable to the recent economic downturn, only a limited number of the past five years may be seen as falling into the recessionary period, as such one may consider that the overall growth of the sector against a backdrop of falling employment points to structural changes within the industry, rather than a problem with the growth of the sector.

Technologies such as the self-service check out may be seen as one of the key structural changes which has aided retailers to reduce the total number of employees needed within the business. Sources indicate that that the implementation of such technologies may in effect allow a single employee in the future to do the same amount of work as five employees in stores where not such technology is deployed. This points to a significant reduction in the number of grass roots level employees required in the future from the deployment of just one technological development within the retail segment.

### P. 2 Local Convenience Stores

For the purpose of this example two products have been selected, one a perishable food product and another a non-perishable item of FMCG. Here the example of a food product considers the logistics operation behind a microwave meal product, whilst the example of a non-perishable product will relate to a cleaning product in the form of washing powder. Both will be considered in the context of the distribution channel within the Spar retail business, one of the key players within the convenience retail sector. Spar has been selected as an appropriate retailer as not only does the business operate within the convenience retail sector, but the researcher has also been able to make use of a key contact within the organisation facilitating the input of primary as well as secondary research into the project.

### Small and Large Retailers:

The size of a retailer will determine many factors in relation to both its operations, marketing strategy and its general business and corporate level strategies. On the one hand, large retailers such as the “ big four” in the UK which include Tesco, ASDA, Sainsbury and Morrison’s are able to focus on a strategy of building large out of town stores, which are designed to maximise efficiencies by operating on the basis of economies of scale which are used to generate a cost leadership strategy . As such, the strategies of large retailers are based upon buying large volumes of product which lowers the unit cost of products. In addition, large retailers buying on such a large scale are often able to benefit from other cost savings which are associated with the distribution and logistics channel. Many large retailers buying in such a large volume will be able to receive full loads of product delivered directly into the store directly from the vendor. As such, this eliminates the need for additional costs which are associated with multiple handlings of stock delivered into a network of regional and national distribution centres, as is the case with many smaller scale retailers.

On the other hand, small retailers not being able to compete on the basis of a cost leadership strategy must focus on a form of differentiation or market focus. Despite the advantage of large out of town locations, the small retailer is able to set up a network of smaller stores within metropolitan and high population density areas, which larger retailers may not be able to operate their business models. In addition smaller retailers may be able to offer additional differentiated levels of services such as around the clock opening hours. This however, is a competitive advantage which has been eroded in recent years, with many main stream retailers beginning to offer 24 hour opening schedules. Given that small retailers are unable to compete on the basis of price with larger retailers within the sector, such differentiated levels of service must always be seen as having the ability to generate additional levels of value in the eyes of the consumer, which will ultimately lead to the ability of the small convenience based retailer to charge a premium in comparison to the larger cost leader based competitor.

Considering the two products in question the perceived strategy would seem to be the same in the context of both kinds of retailer. For the large retailer the consideration is that the company can offer both products at a lower price than that of the small convenience retailer. However, access to the product may require the purchaser to travel a significant distance to obtain a product and thus the element of convenience is traded off for a lower price.

On the other hand, the small convenience based retailer adopts an opposite competitive strategy to that of the larger retailer. In the case of both products, the small convenience based retailer offers a product which may be viewed as a necessity in both cases with instant access to the product. However, in allowing the consumer a more convenient level of access to the product, whether this be on the basis of a closer location or the fact that store opening hours are longer that those of a larger retailer, a premium will be charged against that of the low cost retailer. As such, the consumer is asked to make a trade off in which convenience in the form of instant access is prioritised over the consideration of a lower price as offered by the larger retailer.

### Distribution Channels:

The distribution channel considers the various parties for whom a product or service will travel through from the time when the product is manufactured to the point at which the end user will consume the product. In considering such parties there are a number of considerations which include both internal and external parties such as a consideration of the various staging posts a product will pass through including, warehouses, distribution and consolidation centres before finally arriving in the store and ultimately reaching the consumer.

In the case of the products being considered it is important firstly to identify the elements present in the distribution channel of the specific organisation in question, in this case the case study is considering the distribution channel for the Spar brand of convenience stores. For many smaller scale independent convenience stores the distribution channel may be one of much greater complexity including movement of goods between manufacture to wholesaler and then a second movement of goods from wholesaler to the retailer in smaller quantities, each transaction adding an additional layer of cost to the product .

However in the case of the Spar operation much of the distribution channel is handled in house thus resulting in greater efficiencies in the distribution channel and a reduction in costs as volume discounts are still achievable from buying in bulk. In addition one of the contemporary issues in the distribution channel is to consider the impact of the internet however, in the case of the convenience store the distribution of the product largely takes the form of a traditional physical distribution.

In the first instance taking the example of a washing powder, the product is purchased directly from the manufacturer on a full load basis. The product is subsequently delivered directly from the vendor into one of Spar’s national distribution centres, this allows the company to buy in bulk and receive the benefits of discounted purchasing. However, at this level the amount of product bought directly from the vendor is too large to be received by stores operating within the chain, this may be seen as a key difference when comparing the ability of larger supermarkets to be able to handle large deliveries of stock directly from the manufacturer.

As such, the product remaining on full pallets is redistributed to a number of smaller regional distribution and consolidation centres, the product is shipped alongside other non-perishable items which allows the regional distribution and consolidation centres to stock a greater number of products in the appropriate quantities for regional stores to draw upon.

Once the product has arrived at the regional distribution centre, the consideration is that full pallets of a product are still too large to handle for the kind of stores operating within the Spar chain. As such, full pallets of washing powder a broken down and mixed with other products onto a range of devices such as cages which can then be used to distribute a large variety of products to a store in small quantities, thus facilitating a wide range of product availability in store, without incurring large levels of wastage due to the over stocking of products.

Considering the distribution channel of the microwave meal in the same chain of stores the overall distributional channel is quite a different one, this is largely the function of the nature of the product in its self. Here the primary concern is that the amount of time which the product spends in the distribution channel must be much lower than that of a non-perishable item such as a washing powder.

In the case of a microwave meal the goods is purchased on the behalf of Spar however, this time loads are delivered on the behalf of the manufacturer by a third party logistics company specialising in chilled distribution. The product is brought directly into one of Spar’s regional distribution centres with a chilled warehousing facility. As such this eliminates one layer from the distribution channel in which the washing powder was first taken to a national distribution centre.

Again at this stage, despite the smaller deliveries made into the regional distribution centre, the quantities of product purchased are still far to great for distribution directly into the stores operated by the Spar chain. Again the relatively large quantities of product delivered into the regional distribution centres are subsequently broken down and the microwave meals are load built with other products of a perishable nature requiring chilled distribution. Once a suitable load has been built, the company’s fleet of small chilled trucks will redistribute the products to the stores in the appropriate quantities. As such, the whole processes sees that the perishable food product spends the minimum amount of time in the distribution channel in comparison to products of a non-perishable nature, where the time of distribution is a less critical issue.

### Transport Methods:

In both cases the products in consideration are usually produced within the UK and will be transported via road transport by one method or another. However, the difference between the transport of the perishable food item and an item of non-perishable FMCG such as washing powder is likely to be significantly different within the road transport network.

Taking for instance the perishable food item in the first case, the microwave meal. Here one of the prime considerations is that if the product is not handled and transported in the correct way, then there is a high risk that the product will be spoiled and thus have to be written off at a cost to the business. In addition to this commercial consideration, the is the concern that where a perishable food product is poorly treated in the transportation process there are health and legal issues as well as commercial interests at stake. Mistreatment of a perishable food product in the transportation process could lead to quality issues which include but are not limited to serious food poisoning and ultimately death as a causation, both of which would have an adverse impact upon the profitability of an organisation engaged in such activities.

Having considered the above factors, it is not surprising that the documentation and procedural considerations associated with the transport of perishable food stuffs are much higher than those of a non-perishable items of FMCG such as washing power. Such additional documentation may include the recording of transportation times between locations and the documentation of the temperature at which goods were transported between locations.

In addition to the regulations observed, another factor which may be considered in the transportation of perishable food items such as a microwave meal is the element of cost. Whilst a non-perishable item of FMCG may be transported using basic methods of road haulage, the transportation of perishable food items such as a microwave meal is likely to require the use of a specialist chilled distribution fleet between chilled warehouses, all of which implies an additional cost in the direct costs of transportation.

On the other hand, the distribution of a non-perishable product such as washing powder via the road network may be seen as much more simple and cost effective operation. Here, the sole consideration is that transport allows the product to arrive in its desired location in good condition and in accordance with the desired delivery schedule to facilitate greater on shelf availability.

As such, as long as the product is not mal-treated during the transportation process, a non-perishable product will not automatically deteriorate during the transportation process simply as a function of time. In addition, where a product is damaged in the transportation process, the consequences for the retailer are much lower than in comparison to that of a perishable food product. Where a product is damaged in transport which is non-food based, the cost is limited to the write off of the product and even here, the retailer may be able to recoup a certain percentage of the value of the product by offering a discount on the item.

### Storage – Manufacture to Consumer:

One of the critical elements in the whole distribution process is to consider the storage of the products in question from initial production at the manufactures operation through to the final presentation before the consumer purchases the product. Effective storage of a product is one of the key way in which those operating within the distribution and logistics function are able to minimise additional costs associated with wastage and product damage.

In the case of the washing powder, the product is produced in its retail format, in that of a standardised box. The boxes are then palletised which facilitates a palletised approach to the further storage and distribution of the product. After initial manufacture, the product is stored in a large automated warehousing facility at the point of manufacture. The product can be stored in such a location for several months until a customer order is placed, given that the product is non-perishable in nature the sole concern is that the product is not damaged through multiple handlings or exposure to light.

Once a customer order is placed by Spar, the product is similarly stored in a large automated warehousing operation which largely mirrors that of the storage faculties of the initial manufacturer of the product. Again the primary concern of storage is to minimise the potential damage to the product through multiple stock handlings and other elements such as light. As such, once product arrives it is quickly placed into location within the warehouse and pallets are maintained in their current format so as to ensure minimal opportunity for damage. On receiving goods, pallets are labelled by the warehouse, a process which allows for an effective program of stock rotation seeing that the first product in is also the first product to be redistributed an inventory management technique referred to as “ first in first out” or FIFO.

On reaching the regional distribution depots pallets of the washing powder are initially stored in their current format. However after an initial storage period, individual pallets are relocated into a “ breakdown area”. Here pickers are able to access the product directly so as to enable small loads to be built to send out to stores. As such, the emphasis of the storage operation changes between the large national distributions centre in which the ability to hold a large amount of product in good condition is the primary focus. At the regional distribution centre, the primary consideration is the ability to effectively access the product for the purposes of redistribution to the stores in the appropriate format.

Finally, on reaching the store the washing powder has two further elements of storage. Initially the stock is held in a non-chilled part of the in store warehouse where the goods is stored for a short period of time before being brought into the store to replenish sales out. Once in the store the washing powder is stored on an ambient shelf facilitating ease of access for the consumer and thus sales out.

In considering the storage associated with the microwave meal, a perishable item of food one may see that both the emphasis of storage and the complexity involved is much greater than that of the non-perishable FMCG item. From initial manufacture of the microwave meal the product is stored in a blast chillier to ensure that the product reaches a suitable temperature for storage within the manufacturers own faculties. After an initial storage period, the product is tested to ensure that the correct temperature has been achieved and the product subsequently put into a chilled warehouse within the manufacturer own establishment. The manufacturer’s warehouse is designed to facilitate speed of distribution within the storage function, products frequently spending less than 24hours on the manufacturer’s site before leaving the plant for redistribution to customers.

Once reaching the regional distribution centres, products are labelled and checked into the chilled section of the warehouse. At this stage there is a high degree of emphasis placed upon documentation, each batch of goods requiring documentation that the product has previously been stored in the correct way, including during the transportation process. Once checked in inventories are managed by a computer system which sees that pickers again use a FIFO system to break down larger quantities of goods for further onward distribution into the stores within the Spar chain.

Once the goods arrive at the local convenience stores there are two further considerations for storage. Larger stores have a chilled section of an in store warehouse available, in such circumstances the product is stored initially in the chilled section of the warehouse, before being brought into the store to replenish sales. However, many smaller stores within the Spar chain lack chilled warehousing faculties in store due to a lack of space. In these cases the product must be stored directly in the chillers which are to be the point of sale. As such, this indicate the importance of correct inventory management and the ability to distribute small quantities of product to a given store. Failure to conduct such an efficient operation could lead to increasing levels of wastage and stock write offs.

As such, one can see that there is a large difference in the storage part of the distribution function when comparing the distribution of washing powder against that of the microwave meal. The emphasis of the storage of washing powder was simply the ability to handle large amounts of product in a safe way which protected the stock. The emphasis of the storage of the microwave meal included facilitating the speed of distribution and making use of systems, which enable a comprehensive audit trail of documentation in relation to the maintenance of the quality of the product from a temperature control perspective.

### P. 3 Slide notes

This section provides a comprehensive set of notes to accompany the PowerPoint presentation discussing the challenges facing Sainsbury’s supermarkets. The challenges identified have largely been taken from the information provided in the company’s annual report, as well as considering items taken from the business and trade press.

### Slide 1 – Overview

At present despite the challenges of the market Sainsbury’s has a market share of 16. 1%, a market share which has grown by 0. 2% in the last twelve months.

Currently Sainsbury’s is experiencing a rapid rate of growth in its non-food based segments, non-food sales have grown three times faster than the company’s food based sales in recent years.

One of the key areas for growth is that of the online distribution channel which has been a 20% rise in growth in the last year. Other key areas of growth may be seen as alternative format stores such as Sainsbury’s conveniences based stores.

In summary, Sainsbury’s is an organisation with growing sales and profitability driven by the development of non-food sales and alternative distribution channel. The challenge for Sainsbury’s will be to maintain growth in the increasingly competitive core market of the supermarket sector.

### Slide 2 – Porters Five Forces Model

Introduce Porter’s five forces analysis as a standard industry analytical tool for the consideration of the competitive nature of a given industry or market.

Overall Level of Rivalry – The overall level of rivalry in the industry and segment may be seen as significant. Whilst the sector is dominated by just a few competitors which include Tesco, ASDA and Morrison’s each of these players are large companies with access to considerable levels of resources. As such, the industry represents an oligarchy style of industrial structure.

Power of Buyer – The power of buyers is relatively high, consumers are easily able to switch between providers with relatively little transactional costs incurred as a result. Whilst there are few major players in the market, there is a sufficient number for the consumer to still effectively change providers.

Power of Supplier – The power of suppliers within the supermarket sector is relatively low. Many suppliers are supplying generic goods for which there are a high number of producers available. In addition, the volume of products purchased by the supermarkets allow suppliers to be dominated with putative trading terms and conditions.

Threat of Entrants – The threat of entry into the market is relatively low. The oligarchy style industrial structure is often off putting to new incumbents and the requirement to invest a significant amount of capital in the required infrastructure and distribution network makes the supermarket sector less attractive than many markets with lower barriers to entry from a capital perspective.

Threat of Substitution – Given that many of the products a supermarket sells are related to food and the household, there is relatively little threat of substitution. The main threat of substitution may be seen as coming in the form of substitution to another provider of goods and services, rather than a switch in goods purchased.

There may be additional risks for Sainsbury’s operating a value added strategy in that consumers may as a result of the recent economic downturn choose to switch superior premium prices goods for less expensive standard quality offerings.

### Slide 3 – Generic Strategy

Give a brief overview of Porter’s three generic strategies of cost leadership, differentiation and market focus. Then apply the model to the various competitors within the supermarket segment.

In addition to introducing the main strategies, make reference to the fact that Porter indicates that whilst the strategies are not mutually exclusive, very few companies managed to follow more than a single of the generic strategies with success. Those that opt not to follow one of the generic strategies or attempt to follow more than one strategy are referred to as “ stuck in the middle”. The pursuit of more than a single generic strategy often results in a firm attempting to meet the needs of a wider group of consumers however, such firms usually deliver poor value to all segments.

Sainsbury’s – Sainsbury’s may be seen as following a differentiated generic strategy in trying to create a competitive advantage in the face of its competitors. As such, Sainsbury’s adapts its product range to incorporate a high number of value added products including, organic foods, freedom foods and speciality products. Sainsbury’s strategy may be seen one of attempting to beat the competition by offering an around