Retail Management
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Lecture - 01
Introduction to Retailing

Hello everybody, welcome to the NPTEL course on Retail Management. This is Dr. Swagato Chatterjee from VGSOM, IIT Kharagpur who is taking this course for you. We are in week 1 and this is lecture 1. And in this class we will discuss about Introduction to Retailing.

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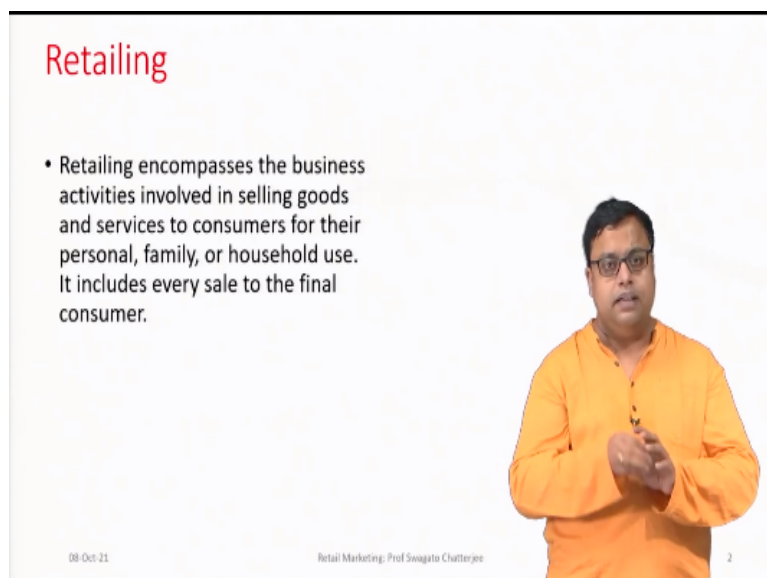
So when we discuss about retailing the first thing that we have to discuss is what is the definition of retailing. So retailing encompasses the business activities involved in selling goods and services to consumers from their personal, family and household use. So majorly you will see that we are focusing on certain terms here in this particular definition that I have written.

So the first thing that I am saying that you have to sell certain goods and services, it is not only goods. Often times we have an idea that in most of the retail stores, the goods or products are sold. But service retailing is also an important factor, important component. It is becoming slowly growing and I would say growing at a faster speed than product retailing and we will discuss about the service retailing at a better depth.

Now whom do I generally sell? So retailing is majorly focused to B2C customers. There are retails for B2B customers also like Alibaba is a classic example of, let us say e-commerce in the context of B2B but majorly B2C is our focus. What is B2C, business to consumer. What is business to consumer? That means there is a business which is trying to serve individual consumers; me, you and other people in the world.

So that is what that retailers generally do. Now when I am saying that it will focus on the needs and wants and desires of individual consumers, that does not mean that it will only focus on that particular consumer's needs. It will not only, it will also along with individual or personal choices or personal preferences or personal needs, it will also focus on family.

Because oftentimes one single person do the purchases, majority of the purchases for their family. Oftentimes that person is also the bread earner of the family and also and sometimes the household. Household and family we have defined separately. Family means some people, let us say it can be you, your wife, your kid or some other people who are staying together who are related in some sometimes in terms of blood, or sometimes in terms of marriage.
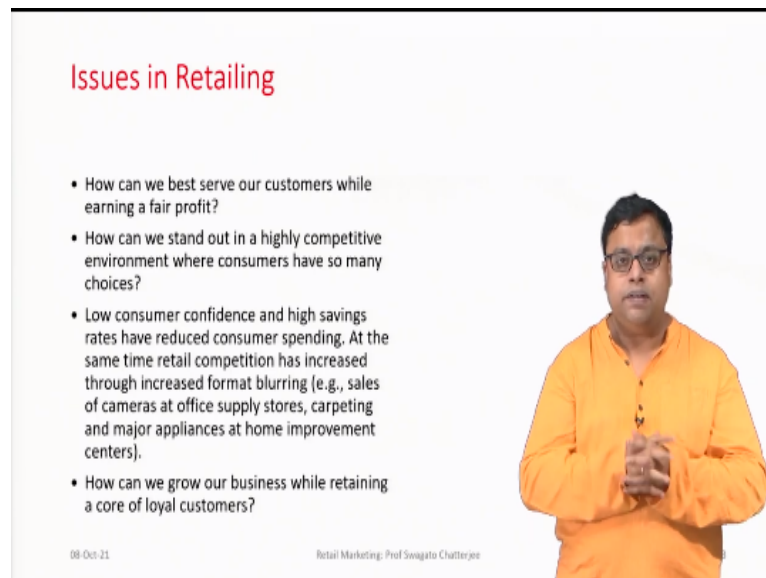
On the other hand, household can be a little bit bigger. So there can be more number of people inside a household, often applicable for let us say joint family concept, but there are multiple small families living inside a bigger joint family. Now there retailer will probably focus on multiple such customers inside the house. That is why the household itself is a concept that becomes important in this case.

It includes every sale to the final consumer. So ideally retailing will focus on that final consumer. That particular consumer will not again sell it to somebody else. If that particular consumer sells it to somebody else again, then it is a B2B relations. But here you are, and in that case you are becoming a basically a supply chain person rather than a retailer.

If you are selling somebody and that particular person is let us say a small grocery store owner, you are Big Bazaar let us say. And he buys from Big Bazaar and sells it to in his Kirana shop, then Big Bazaar is basically working as an intermediary. So here we will also tell them at retailing, but in majority of the cases we will not define that as retailing.

Though Big Bazaar will also focus on these consumers and will create strategies for these consumers who are basically not consumer these customers who are basically selling the product to some other people. But in the context of retailing, we will try to avoid to focus on them. We will later part of time we will bring them in in certain cases.

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Now what are the major issues of retailing which we will be trying to answer in this course. So the first major question that comes up is how can we best serve our customers while earning fair profit. So everybody wants to do that. Everybody wants to earn some profit at the end of the day. But along with that they want to serve their customer well. They want to do well for the customer.

So we call it doing well by doing good. So you do something good and you will also do well in your life. So that is, how will I make sure that happens? And what are the

steps to do that? I have to answer the second question, how can we stand out in a highly competitive environment where consumers have so many choices.

If consumers have choice, consumer have inform, consumer have, let us say the less switching cost, then the consumer will very easily switch from me to somebody else. And if I am a retailer, then I have to be I have to remain competitive at every point of time. Because, if I not remain competitive, my competitors, who are giving better offers or more lucrative offers, my customers will go to them.

Now if that happens, then my profitability will go down. And if my profitability goes down, often times retail is something you will know in the later part of this week we will discuss about relationships, retail often stands on relationships. So one relationship lost will have probably 10 times more effect than one new customer that you acquire. So you want to avoid that loss of customers, loss of loyal customers to be precise.

So how I will remain competitive enough so that that does not happen is the second question. Then what is the third? Low consumer confidence and high savings rates have reduced consumer spending. At the same time, retail competition have increased through increased format blurring. Means certain formats like online and offline, let us say B2B and B2C, these are all getting blurred.

Then if this is the case, then the competition is daily changing and the way you have to compete in the market is changing, then how can we grow our business while retaining a core of loyal customers? That is also another question that we will be trying to answer.

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The 10 Largest Retailers in the United States (2016)

Rank	Company	Main Emphasis
1	Wal-Mart	Full-line discount stores, supercenters, membership clubs
2	Kroger	Supermarkets, convenience stores, jewelry stores
3	Costco	Membership clubs
4	Home Depot	Home centers
5	Walgreen Boots Alliance	Drugstores
6	Target	Full-line discount stores, supercenters
7	CVS Health	Drugstores
8	Amazon.com	Web merchant
9	Albertsons	Supermarkets, drugstores
10	Lowe's	Home centers
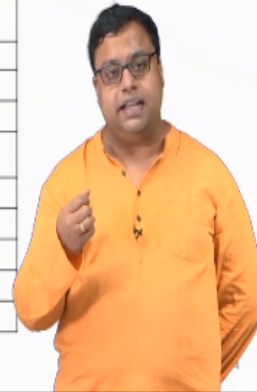
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Now next after focusing on these questions, we will also talk about who are the plain big retailers. Why we are talking about them? Because these are our classic examples that we will be following. The big retailers are generally successful. They have presence in multiple markets and Indian market at least, it has been seen that Indian market often there are certain things which is indigenous.

There are certain things which is very specific to Indian culture, system etc. So we have to discuss that. But the urban market of India often follows whatever is happening in the western market. So if we can follow certain big successful retailers in the western market or in the developed market to be precise, then what we will be able to do is that we will also be able to create recipes for our insider, for our conglomerates or for big retail stores inside our country.

So some of the retail stores that we will be focusing on is Walmart. Walmart is full time full line discount store. They have super centers, they have membership clubs, we will focus on them. Then Kroger. Kroger is a supermarket. It is also sometimes it comes up with convenience stores and jewelry stores. So that is another important aspect.

Costco is a very well-known membership club. Home Depot is for home centers where you buy products which is related to your home, that means furnishings and

sometimes anything that you require in your home day-to-day life, kitchen appliances and etc. Then some of the other names are Target. Target is one of the major competitors I would say for Walmart.

Amazon.com is also one competitor that is coming up in this market. Now you see all, out of these all these 10, probably Amazon is only one in this particular list who has come up as an e-commerce and now competing with brick and mortar stores. So originally retail stores were brick and mortar stores and Amazon was originally e-commerce. Now that demarcations are slowly getting blurred as I just told in the last slide.

But we have to focus on that. So amazon.com is a web merchant. Then CVS Health is a drugstore where also things are coming up. Best Buy, I have not mentioned this name, Best Buy is a e-commerce. It is a brick and mortar store, which is related to electronics, which is also something, which is an important case study, we will talk about that a lot.

So these are some of the success stories which we will try to follow in this retail management course so that you will be able to copy or you will to be able to get inspired by certain strategies that they have taken, which one retail manager can take in his own retail store as well.

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A Typical Channel of Distribution
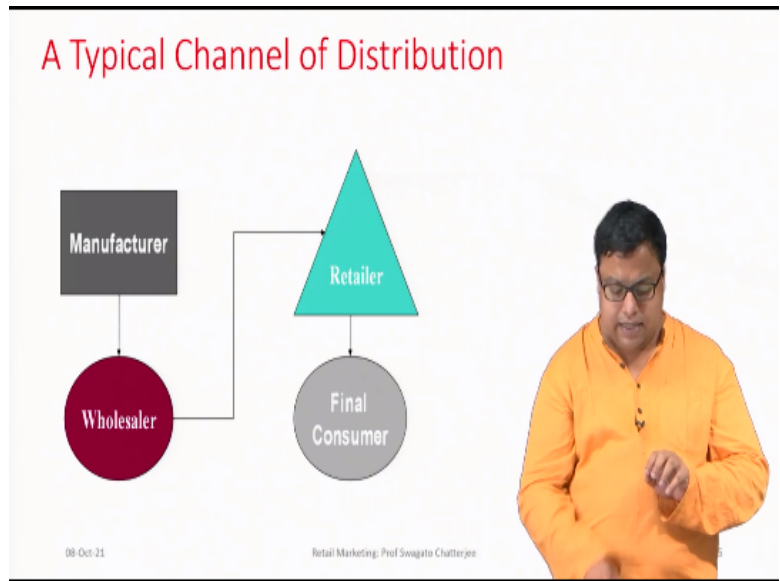
Now what is retail? This is a classic supply chain of retail, a typical channel of distribution. So retail does what? Retail make sure that the product or the services reaches to the final customer. So there is a manufacturer, then there is a wholesaler. There might be wholesaler, distributor, dealers blah blah blah inside.

And then there will be a retailer who will be the last point in the supply chain who will connect with the final customer. Now this is a very easy detail supply chain that I have drawn. In real life situation supply chains are not looks like this.

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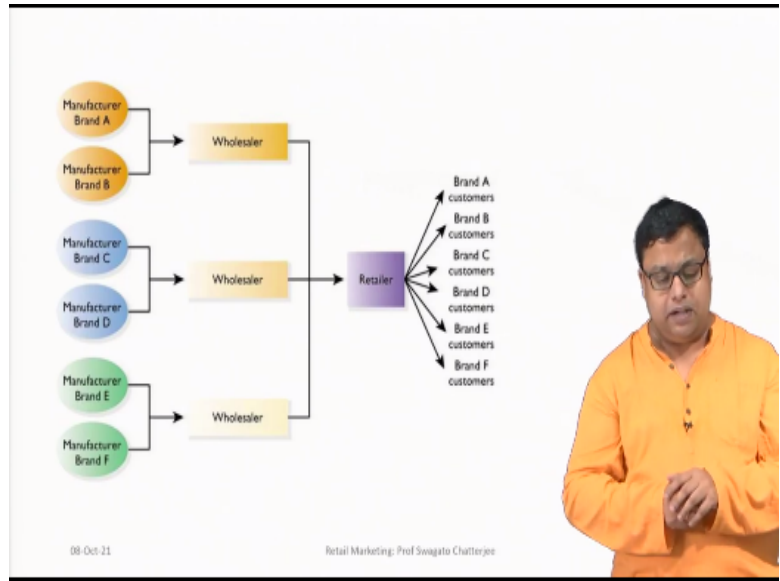
Supply chain probably will look something like this where there are multiple brands are available and multiple retailers are available, multiple wholesalers are available.

So one retailer probably will source their products from multiple wholesaler, wholesaler 1, wholesaler 2, wholesaler 3. And these wholesalers can be of wholesalers of different brands.

Let us say wholesaler 1 is the wholesaler of manufacturer A and manufacturer B. Wholesaler 2 is for C and D and wholesaler 3 is for E and F. Sometimes these clear cut demarcations are also not there. Sometimes it might happen that wholesaler 1 gets it from manufacturer E and also manufacturer C. Similarly wholesaler 2 also does it for manufacturer C and D.

That means manufacturer C gives it to wholesaler 2 and wholesaler 3 both. So that can happen. So this one-to-one relationship is not always possible. It might be case there will be one-to-many relationship, not only for retailer to wholesaler, wholesaler to manufacturer in this direction, but also in manufacturer to wholesaler, wholesaler to retailer in this direction. How? It is very easy to understand.

Like for example, wholesaler 1 does he only give service to retailer, this particular retailer? He probably is given service to multiple other retailers. So there are a network that is there. This is one of the again simplest version of the network. It might be very cumbersome network that is there. And then retailer 1 is actually serving to customers of multiple brands; brand A, brand B, brand C, D, E, F.

All the brands he is trying to serve. So ultimately why manufacturers will be more focusing on this retailer? Because this retailer is the last point. So all the information that you want to give to the consumer, all the communication that you want to pass to the consumer, you can do it through advertisement or targeted connection communication channel with the particular customer.

But there you do not have control. If you want to have a controlled passage of information, controlled passage of benefits, controlled passage of promotional activities, then you have to probably rely on this last retailer because he is the person

who is serving the customers. But not only that, you have to also focus that let us say manufacturer A and manufacturer B both are yellow, let us say they are competitors.

Now they have to not only make sure that the wholesaler who is in the supply chain is positive towards him; he is giving better offers, better services, better kind of benefits towards the manufacturer, the manufacturer must also think that whether the retailer will also give better benefit to me than my competitor or not.

Because if the retailer does not give the better benefit to manufacturer A versus manufacturer B, then ultimately I will lose the market. Because the retailer is the last person who can convince, who can influence the consumer. So that is why in the supply chain, wholesaler, distributor, dealers they are important, but they are important more in a cost perspective, that what kind of cost benefit they will give you.

But retailer is important not only based on the cost perspective, but also based on the revenue perspective for the manufacturer. Because if retailer can sell a lot, then the manufacturer can produce a lot, and that is how he makes money. So that is how this particular market works and retailer has a very important role in this particular market.

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Now next some minutes, let us say next 10, 15 minutes we will discuss about how this chain has changed in the context of multichannel and omnichannel retail.

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What is multichannel retailing? Multichannel retailing means then when you have presence in multiple channels. So what are the various channels that are possible? The common sense let us talk about so one channel is brick and mortar. You can be in a brick and mortar store, which is a physical store. You can also be in smartphone apps like it is written there. You can be in website which is you can be in social media.

You have seen now Facebook is coming up with their Facebook retail stores. Basically people are posting pictures of houses, pictures of products. Sometimes they do it in the local store, local store page under Facebook. Sometimes they do not do all those things. They have created their own page and they ask their friends to like that page and then their friends through word of mouth ask some other people to like the page.

And they post pictures of let us beautiful dresses if it is a dress company, a dress entrepreneur I would say. Let us say they will put pictures of beautiful paintings if he is a painter. They will put pictures of various kinds of art and craft activities if he sells handicraft. So these kind of things they put. And then people ask in the comment that what is the price of this product?

I have seen there are package, there are groups in Facebook, which is related to homestays. Let us say homestays, beautiful homestays in India, various there are various visit places vacation places where people go for vacation and you have created, you have your own bungalow or something and you put that. It is like an Airbnb inside Facebook. So you put up your pictures and etc.

People like it and people ask for price and then you go to the chatbox and then chat with them, set up a deal and they come to your house for staying, for spending the vacation. So retail is changing. Retail, now this is a service retail. And you are basically given services to the end customer. And Facebook is the platform through which you are giving it.

Ultimately the consumption and etc., will happen inside your house, whichever you are renting it out for vacations. But the communication channel is Facebook, the conversation is happening through Facebook. Sometimes the payment is also happening through Facebook if they use the local store. So all I am trying to say here is there are multiple channels possible.

Now if you are giving services if you are retailing your services or goods in this multiple channels, then you are a multichannel company. In a multichannel company generally, the services will not, may not be interconnected. The services that you provide, the information that you provide, the products that you sell in a brick and mortar store of your own company, and the services that you sell in the online store might not be in sync.

If they are in sync, then that is called omnichannel. So omnichannel retailing is what, a retailer sells to consumer through multiple retail formats, but when they are in sync, their information is in sync, their marketing activities are in sync, that is called omnichannel. Now why that is important? Why slowly we are moving to multichannel to a omnichannel?

For example, let me give an example. When Walmart first came in, there were big retail stores. Then Walmart faced competition from other people. So Walmart came up with certain kind of online presence as well. And that the same thing did many other brick and mortar retail stores. But the problem is that these two have some specific advantages and disadvantages.

We will talk about that, what is the advantage and disadvantage of having a brick and mortar retail store versus a online retail store. In a brick and mortar retail store people you can probably connect with the person directly. But you have to rent out a big space. There are manpower costs, there are probably certain kind of geographical location based costs.

On the other hand, there are stocking cost. You have to create your inventory as well. But in a online retail store, those kind of problems are not there. But at the same time you cannot talk with the customer. The customer generally comes in your website, buys and goes away.

So if these two places there are different kinds of customers there are different kinds of customers comes and different kind of services are produced and different kind of costs of producing the services are there, then often times it is probably making sales, initial phases at least, that you will keep the online retail store and the brick and mortar retail store as two separate entity under the same umbrella.

But customers do not like that, customers want that omnichannel presence. Customer want that whatever offer is available inside the store I can also get that online. They do not, they do not want that just because they are buying it from online under the same brand name of let us say Walmart or Amazon or somebody else they will miss out something. They do not want that.

And that is what the omnichannel experiences, how I can bring in omnichannel experiences in multiple context, that channel comes up.
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Omnichannel Retailing

- Cross selling across channels (in-store product availability info on Web site)
- Consistent pricing in all channels (credibility)
- Can buy, and return product regardless of channel

So what is omnichannel retailing? It is cross selling across channel. So in-store product availability info on website. So you might get the in-store product availability information. So whether, let us say you have searched something in the website, you find out the product, you compare the product with multiple other products and you like the product. Now you want to buy it but before you buy it, you want to try it on.

Let us say it is a dress. Then if the retail store says that okay, I will give you the in-store product availability. So I have this many stores, you go to this store, you will get it. For example, if I am not wrong Frank Ross if you go and search in their website, some medicine, then they will also, you will also get the information that in which store of Frank Ross this medicine is currently available.

The inventory information is out. So you can go and buy from there. Then consistent pricing in all channels, which create credibility. This is also one feature of omnichannel that whatever price I am paying inside the store, the same price I should pay in the website irrespective of your cost. So if the retailer can manage that, that gives credibility. That does not, that shows that okay, I am very clean.

It is not like that you do not have enough information when you are coming to the retail store, brick and mortar store and buying the product you cannot search the internet at the time or probably it is difficult for you to do lots of comparison at that

time. So that is why I will cheat you and sell you something at a higher price, no. If by chance you get, a retailer get caught of doing that, the credibility will be lost forever.

So that is also one kind of omnichannel experience that the retailer may be trying to create that all the channels will have the same price. Similarly, they can buy and return product regardless of a channel. This kind of offerings are coming up. So oftentimes you will see Reliance, I have seen this in Reliance's case. You go to the Reliance's dress, I think Reliance Fashion or something like that.

You go there, you try out a product, you like the product but that certain size is not available. You might require a one size extra. Let us say you are M and you want an L. Now that L one is at that particular moment is not available. So what they will do is that you do not have to buy from here. You buy it from Ajio. So Ajio you buy it from and it gets delivered at your home.

Now once you tried in Ajio at your home, you all of a sudden you found, so this is an omnichannel experience, the one that I just told. Now once you have tried this Ajio at your home, all of a sudden you felt that no this is not good, I might have, I might want to return it. Now you might not want to again go to Ajio's website and create this thing because this particular Reliance Trends store is in between the path of your office going.

So what you do is you pick up this particular dress and while going to the office you drop down in the Reliance Trends and drop it off and you say that this is return you process the return please. You at least accept that the product has been handed over to you and then it take two, three days' time to process the return. So this is an omnichannel experience.

If this can be created and some part of that is already there, this is an omnichannel experience where the e-commerce and the brick and mortar store is in sync with each other I can buy it from anywhere, I can get delivered anywhere, I can return it from anywhere irrespective of whether I am more, I am doing one job in brick and mortar

and another job in online or not. So that kind of facility should be there, which is an omnichannel retailing.

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Why it is important? Because each channel will have different roles. As I just told, the advantages and disadvantages, each channel will have different roles. So store generally what kind of roles it has? You know that when you go to a store you can try the product, you can touch the product. So you can basically have a feel of the product. It is also easy to return because you do not have to wait of processing.

You do not have to basically think about whether the money will at all come back or not when I am doing the return. The availability is fast. There is an immediacy, you can just go and collect. So let us say tomorrow is Durga Puja, let us assume and today evening you all of a sudden you found out that you have not bought any dress.

You were very busy in your office work and you forgot to buy any dress for the Durga Puja celebration and tomorrow is Durga Puja. You have to go out for pandal hopping with your friends and etc., and you do not have a choice. Or let us say tomorrow is the interview and you do not have a dress, you do not have a shoe.

Oftentimes it used to happen with us when we were in college days and now your friend is saying that no I will not give my shoe to you. He is also staying with you in

an hostel and he is saying that no I will not give you my shoe because I also have an interview, what will I do? So now you need a shoe at that particular evening and because your interview is in the next day.

So where will you go? You will go to a brick and mortar store. You will not order online because online order will not come overnight. So whenever this immediacy is there, you will probably go to a store. You can also compare offerings if it is not very informative thing. Means if there are lots of information that you have to compare, like let us say compare one car versus another car, it is better to do it in a online environment.

But test driving, one car versus another car or let us say the feel of the leathers, leather coverings of your car seat. You might want to do that in a brick and mortar store. What kind of advantages a web store will give you? It will give you 24/7 product information. Information is very important. And availability round the clock is another important thing.

You can buy it at any point of time and you will get lots of information. You can also get product reviews, you can listen to other people, positive word of mouth is an important information that we will get in online sector. Personalization, you can customize it as per your requirement. You can add or subtract or create filters and etc. Most current pricing, which is also part of information, you will get.

Closeout sales, you will get an information about that. Catalog is generally permanent, and you might get to know the true color of this thing. So these are some of the things which are advantages and disadvantages of stores.

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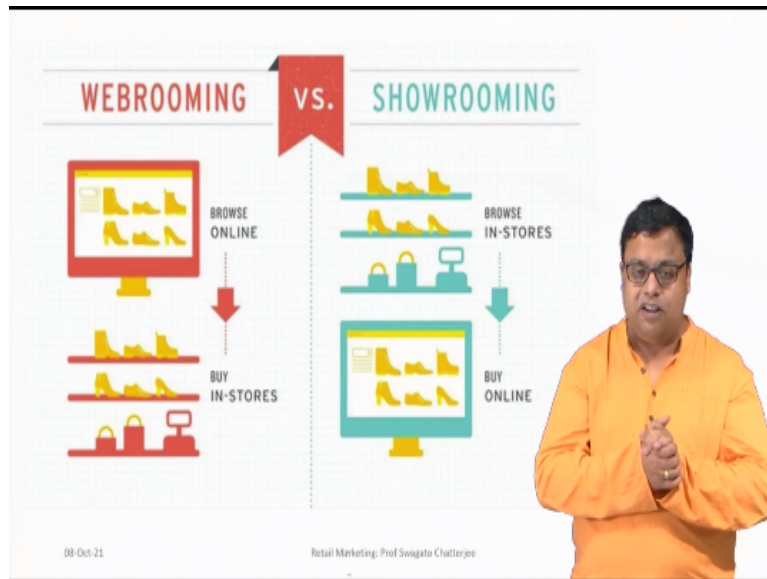
So given this thing, given these advantages and disadvantages of stores, there is a concept called Webrooming and showrooming that will come up where people actually behave in such a way such that they combine these two benefits. They try to behave in such a way such that they will take the benefits of web also benefits of stores also while doing this decision.

And that makes omnichannel experience further more important in a retail context. So in the next day, in the next lecture, I will be discussing on webrooming and showrooming. Thank you very much. See you in the next lecture.