Retail Management
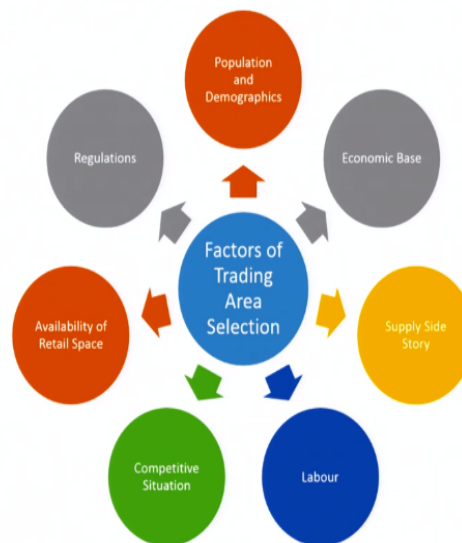**Prof. Swagato Chatterjee**
Vinod Gupta School of Management
Indian Institute of Technology - Kharagpur

Lecture – 21
Trading Area Analysis – Continued

Hello everybody, welcome to this NPTEL Swayam course on retail management. This is professor Swagato Chatterjee from VGSOM, IIT Kharagpur who is taking this course. We are in week 4 and we are discussing trading area analysis. In the last session, we have discussed about various kinds of gravitational models and based on which how you can decide which trading area or how much is your trading area and how consumers are choosing one trading area over other in terms of their purchase decision. But there are other factors over and above this gravitational model which can impact your trading area. So, we will go to that.

(Refer Slide Time: 01:07)

So, elements in trading area selection. There are other probably nonquantitative or I would say qualitative measures. Population and demographics we already talked. Economic base is very important.

(Refer Slide Time: 01:19)

Chief Factors to Consider in Evaluating Retail Trading-Areas

Population Size and Characteristics
- Total size and density
- Age distribution
- Average educational level
- Percentage of residents owning homes
- Total disposable income
- Per-capita disposable income
- Occupation distribution
- Trends

So, when we talk about population and demographics let us say some of the things that comes under picture is this total size and density of the trading area or age distribution. This is an important demographic because different age groups have different kind of preferences for retailing activity and shopping activity and they want to know that whether you are actually catering to those kinds of needs or preferences or not.

Average educational level, educational level is currently in sync with whether people will want to explore with new products, new territory, new retailer also, sometimes people who are of lower educational level will stick back to one or two retailers whom they know because they might not be able to measure or gauge the quality of a product by just seeing the product descriptions and etc.

Getting cheated is very easy for them and that is why they want to stick back to certain retailers whom they can believe personally. So, from that point of view, the lower educational level will actually reduce the amount of or the number of retailers that the consumer will be trying. So, education level that is why is important. Percentage of residents owning homes that is a proxy of income distribution.

Total disposable income, per-capita disposable income, occupation distribution over the trading area and the trend. So, these are basically related to demographics. This is also related to economic condition because economic condition actually changes this income distribution patterns. Economic condition makes certain products more lucrative than some other

products. Economic condition also impacts directly on the inflation of products or inflation of raw materials, so that also impacts sometimes these demographics and size of the population.
(Refer Slide Time: 03:16)

Chief Factors to Consider in Evaluating Retail Trading-Areas

Availability of Labor

- Management
- Management trainees
- Clerical

Then comes the supply side story, so we will go ahead. In the supply side there are two types of things that we are focusing on. One is labour supply, another is the raw material supply. So, in the labor supply, availability of labor is very important because cheap labor is what makes a brick-and-mortar retail store more lucrative because you have to put lots of manpower on the I would say store front and to put those people on the store front you have to make sure that more number of people are available at a lesser price.

If the availability of labor is very difficult, if you have to pay a lot to get lot many people to be employed in your organization, then that creates a problem, that probably shifts the choice from brick-and-mortar retail store to online retail store. So, availability of labour is important. And when we talk about labour, this is not only the people who are basically working on the font, this is also people who are generic employees.

So, when we talk about employees, there are different kinds of employees that comes into this retail area. One is the management people. The one is the management trainees which people who are slowly will become management people at certain point of time, but right now they are working on the front and there are clerical people. So, these are all also the backend people who are there in the market. Availability of these people is also important.

Availability of these people are further more important in the context of online retail store because there most of the management is actually not standing on the floor, they are actually back office. All the activities which is labour oriented is usually outsourced or they sometimes hire partners like delivery partners as you know. Delivery partners can be individuals, delivery partners can be organizations, so they go and tie up with them.

So, these online retail stores that is why you can say that they are very lean in nature, they do not take lots of labour in their workforce. They do not take a lot of labour force in their pays. So, they do not directly pay them, they pay as an organizational pay or they pay as a partnership pay. So, they are not in the pay scale of the organization, but management people are in the pay scale of the organization.

And the importance of these management people are further more in case of online retail store than brick-and-mortar retail stores because most of the management in online retail store is in the backend.

(Refer Slide Time: 06:01)

Chief Factors to Consider in Evaluating Retail Trading-Areas

Closeness to Sources of Supply
- Delivery costs
- Timeliness
- Number of manufacturers
- Number of wholesalers
- Availability of product lines
- Reliability of product lines

Then comes the availability of another resources which is the supply, which is the raw material. And this is getting affected by lots of things, for example delivery costs is something which impact a lot. And it is also related to the economics. As I told economics is something that will impact all of them. It will impact the income disposable, income in the consumer side, it will impact the labour costs in the labour supply side.

It will also impact the supply chain costs in the supply chain delivery or I would say raw material delivery side. For example, if the cost of petrol or diesel goes up, then the cost of delivery goes up, that impacts. Inflation also impacts the raw material sourcing costs as well and that ultimately will impact on the revenue generation at the end of the day or the profitability of the organization at the end of the day. So, delivery cost is an important factor.

The timeliness of the suppliers because if there are let us say the road conditions are not so good, if the congestion is very high, then timeliness will be a major issue. Number of manufacturers is also an issue, whether you have options oftentimes retailers actually take products form. We call it strategic sourcing where you have to do risk mitigation as well. For example, let us say you are a grocery retailer.

And in grocery retailing certain products like let us say pulses or rice or the beans, these are some of the things which are sold all throughout the year and you will need to have a constant supply of these products with the quality maintained. What we generally do is that we do not buy, the retailers do not buy the products on one single manufacturer because if I buy it from one single manufacturer, irrespective of whatever quality he gives.

Let us say he is a very good quality manufacturer, but by chance he defaults, by chance if this particular person defaults or by chance something happens in the organization of the manufacturer and it cannot give enough product to me then that will create a disruption in the supply chain and I will not be able to give the products to my customers. So, the customers are ready to pay a little bit low or a little bit high in terms of the quality of the product as long as the flow is intact.

So, what they do is that is why retailers also hedge, they go and make deals with multiple manufacturers and they promise that X amount of products will be bought from you at a Y amount of price and this price per unit will be different for different companies depending on the quality. And also, these manufacturers will be distributed geographically, they will be not located at one place. So, let us say if I am sourcing rice or if I am sourcing pulses, I will have certain sources from India.

Certain other sources from abroad let us say or even in India different states so that if there is a strike in one state or if there is some natural calamity in one state that will not impact my

overall flow. I will have certain amount of stock and then I can plan accordingly. So, I will not be absolutely devastated in a particular supply chain. So, number of manufacturers that is why, number of wholesalers, how do you hedge your supply chain, how do you do risk management in the supply chain is very important decision.

And that is why probably the strategic sourcing people under the retail category manager let us say will come into the picture. His goal will be to ensure two things, one is proper flow of the raw materials, second is proper sales of the products. So, retailers are what, they get the product from somebody and they sell it, right. So, the category manager will ensure that under my category, let us say rice is a category or any kind of grains is a category.

So, under the grains category, the category manager will ensure that a proper inflow is there and proper outflow is there. So, he will be a person who will be both a marketing person, a sales person and a sourcing person together. So, that kind of decision becomes important when you are also using trading area that how many number of manufacturers you have in the trading area or number of wholesalers you have in the trading area or at least how many manufacturers or wholesaler will deliver to this trading area.

Availability of product lines and reliability of product lines. So, obviously the products that is coming up whether they are available, how good they are and how reliable they are that also impacts that trading area choice.

(Refer Slide Time: 10:59)

Chief Factors to Consider in Evaluating Retail Trading-Areas

Economic Base
- Dominant industry
- Extent of diversification
- Growth projections
- Freedom from economic and seasonal fluctuations
- Availability of credit and financial facilities

Economic base. So, in a particular trading area, what is the dominant industry? What is the extent of diversification of the industry? So, let us say if my trading area is majorly a city let us say Calcutta, so in Kolkata, what is the major industry and how diversified is the industry because again it is proposition because by chance this industry faces a problem. The purchasing ability of the consumers will drop like anything and that will impact my decisions ultimately or my demand ultimately in that particular context.

So, I have to choose a trading area which has multiple industries, which is diversified enough, which has growth projections. Different industries will have different growth, so probability of prosperity is different. And I have to make sure that I am not relying on only one industry's growth propositions. The industry may be very big, the industry will very strong, but it is not growing, it is saturated that might not be a good thing for me because over time then my sales will also get saturated.

So, if I see that there are certain industries in this trading area which has high growth opportunity, well growth opportunity also comes with risks. So, this is almost like a financial portfolio management kind of a decision that what is the optimal distribution of this industry so that the potential of future growth is the highest. Freedom for economic and seasonal fluctuations, so this is also important.

One of the major reasons why we see economic and seasonal fluctuation and that impacts retailers, economic fluctuations come over here. So, let us say 4-5 years it is a boom and then 4-5 years it has come down and again 4-5 years it is a boom, the cycle is of 10 years almost, but seasonal fluctuation is within a year. Within a year it comes down and comes up. Now, if I have different kinds of industries in the market, then not all industries will have the ups and downs at the same period of time.

And if not all industries will have ups and downs in the same period of time, the payouts are also then seasonal, the seasonality does not come in a certain time. And if that is the case, if I have multiple industries in my trading area, people are working in different kinds of organizations and different organizations have seasonality at different time, then overall my demand gets not seasonal it gets flattened because everything is averaged out.

When let us say the leather industry is up or the woolen clothes industry is up at that time probably this rubber industry will be at lower part because rubber industry or the resin industry which will be more majorly used in the monsoon time will not be there in the winter time and it might be fluctuating like that. Similarly, let us say IT industries or retail industry or telecom industry will have different times of fluctuations.

And if these fluctuations happen at different time periods, then the chances that it will be flattened out for me is higher and the retailer will always prefer that. A retailer will always prefer a smooth demand rather than a fluctuating demand. Availability of credit and financial facilities. So whether me as an organization can get lots of financial benefits from the local government, from the banks, whether other people also get that, other consumers also get that, the more is the money in the market.

The more is the raw cash in the market, the higher is the chance of retail because retail acts on cash. Retail does not act on huge investment. The purchasing and etc., wants some cash. So, the more is the cash flow in the market, the more is I would say currency circulation in the market the better is the prosperity of the retail stores. So, you have to also choose a trading area where this kind of facilities are better available.

(Refer Slide Time: 15:20)

Chief Factors to Consider in Evaluating Retail Trading-Areas

Competitive Situation
- Number and size of existing competition
- Evaluation of competitor strengths and weaknesses
- Short- and long-run outlook
- Level of saturation

Certain competitive situation. competitive situation means one trading area is very lucrative, but how many people are there, number and size of existing competition. Whom I have to compete with, how much share they have already taken up. Because if it is a monopoly or

oligopoly, it is better, but if it is a perfect competition where everybody is eating out everybody, then nobody makes profit.

So that we have to try to make sure that how many competitions are there? Evaluation of competitor strengths and weakness, you have to also compare they are big, they are strong, but am I also strong in the same area where they are strong? So, comparative analysis works in this particular context whether the organization whom I am competing with is strong enough or not, what to do to overcome then, what is the strength, what is the weakness.

So, this is a very important part of this trading area analysis, the SWOT analysis for each of the different trading area options that you have. Short and long run outlook. You have to also think about that it is okay, so competition is less now, but what happens as I go ahead, what happens if more number of competitors are coming in and how will I stop them? How will I create an entry barrier and level of saturation?

What is the level of saturation if there are too many companies? Now, all of these are qualitative. These are very strategic decisions and generally there is no mathematical tool to understand that other than the one that I was telling that which is MCDM. If you have an ability to measure through qualitative measurements only to measure that how particular trading area is based out of competition, out of economic condition, based out of let us say population, growth opportunities, etc.

If you chalk down let us say 15 important factors that your organization or experts in retailers think that are major factors. And based on that if you chalk down that how will I decide which is the best trading area in a choice of 4-5 trading areas using multicriteria decision making tools that is the only way to go ahead which is a little bit mathematical, but major decision will have to be qualitative enough and you have to do a strategic analysis.

You have to do a cost benefit analysis based on lots of different kinds of assumptions. You have to do I would say worst condition to best condition to reliable or most likely condition, you have to make a comparison of these three trading conditions in each of the trading area and see that which one is better choice. So, those kinds of analysis we generally do to take a call which one I will go ahead with.

(Refer Slide Time: 18:20)

Chief Factors to Consider in Evaluating Retail Trading-Areas

Availability of Store Locations
• Number and type of store locations
• Access to transportation
• Owning versus leasing opportunities
• Zoning restrictions
• Costs

Then a trading area has to have store locations availability. So, a trading area can be very lucrative, a particular place can be very lucrative, but if the store locations are not available where I can open my store, if I would say this real estate is very saturated, a new real estate development is very difficult then that is a problem. So, number and type of store locations in a trading area whether they are available, how much space is available there.

Whether that fits my requirement, whether that is in a corner space, whether that is well connected with other parts of the trading area these are all important factors. Access to transportation as I told that, whether it is accessible, whether people can come and park and go. So, transportation condition, congestion I would say and then what is the range of that particular place as it is written here costs.

Whether there is something under restrictions in that particular place in terms of any municipality will have restrictions that you cannot have a retail store of this size in a congested area because that will basically further congest the road and it will create a problem. You have to have a parking area, the cars that are coming to your retail store cannot stand on the road. If that is the case whether you have that parking area in already built up I would say retail or real estate building.

Now, this is a very important problem because majorly we see these problems are there in the oldest cities like Delhi, Mumbai, Chennai or Calcutta. Getting a huge space in the residential area which has actually developed around 50 years back or 100 years back is very difficult.

How will you get a huge space of retail space of let us say 30,000 to 50,000 square feet area in a residential place where people can easily go and come.

So, then you have to choose spaces which is probably outside the residential area, you have to choose places a little bit away from the residential area, which has its own problem. So, you have to see that whether these kinds of store locations are also available. There is also an important decision about owning versus leasing the store locations, we will talk about that that what kind of ownership opportunity you have.

Should I own this location or should I basically go for a lease. Zoning restrictions and costs these are major problems. So other than economic conditions, other than economic conditions which impact consumers, which impact raw material suppliers, which impact labour force and all of these things probably will impact the ultimate profitability and also there is competition in the market.

So, profitability and competition are the major I would say a driver of choosing a trading area. Profitability comes from the economic condition of the consumers, the raw material supply chain how efficient that is or whatever lower cost you can bring that supplies and the third one is related to labour availability. And all these three things are affected by the economic base. So, you can draw it like this okay, fair enough.

Economic base that impacts three things labor, supply chain let us say just write, supply chain includes raw materials and deliveries and then consumers, consumer demographics and their income and etc. All these things will ultimately impact what? Profitability of this place. Other than economic base, there is also industry and etc., which also impacts. So, profitability and then what else is there? Another is the competition.

So, the more is the profitability, the more is the chance of choosing a particular trading area and the more is the competition, the less is the chance of choosing a trading area. So, that is trading area choice. But all of these will be done, this profitability or competition will lead to training area choice, this will be moderated, this will only impact when store location is available. If store locations themselves are not available, then there is no point of going ahead and doing this thing, right.

So, store location has to be available to have this kind of a model. So, this is probably a trading idea choice model you can. If I put all these factors in different pictures, this will be the overall picture of the trading area choice.

(Refer Slide Time: 23:36)

Chief Factors to Consider in Evaluating Retail Trading-Areas

Regulations
- Taxes
- Licensing
- Operations
- Minimum wages
- Zoning

And then comes the taxes. Taxes are probably also an enabler. Other than store location choice, you can also say that profitability is affected by taxes that is another factor that impacts here. There can be different kinds of taxes. Taxes related to let us say the space that you take, the rate of the taxes for that, the professional tax that you pay, the wealth tax, service tax that you have to pay.

So, there are different kinds of taxes that are there that somebody has to pay. The licensing costs that you have to inquire at this particular place. What is the minimum wages, what is the operational requirements, what is the requirement in terms of the waste management, what is the requirement in terms of the carbon footprint, what is the requirement in terms of your impact on the traffic.

There can be so many regulations, rules and regulations which may impact a particular, so within our country also different locations have different kind of rules and regulations. So, those things can also impact. Those things actually can eat up your profitability expectation, whatever is the profitability its impact on your trading choice can be impacted by these rules and regulations because achieving that profitability becomes very difficult.

So, it is perceived profitability, right, you are perceiving that I will make this much profit, but its impact on the trading choice will come down if the taxes are high because taxes will eat up on the profitability, rules and regulations will make it difficult to achieve those profitability. So, you might think that this trading area is profitable, but that might not ultimately result in your trading choice.

So, rules and regulations are also an important factor, which the retailers considered though there is less amount of control for the retailers in terms of how to change this. This is basically government's decision what kind of rules and regulations will be followed, but these are also factors which impact your trading area choice. So that will be it. In the next discussion, we will talk about site selection.

Site selection will have different kinds of ownership opportunities and we will also talk about site ownership opportunities, what kind of site ownership plan you will go for. So that will be it in the next videos or next classes. Thank you very much. I will see you in the next class.