

INTERNATIONAL RETAILING

Key to Success in Global Retailing

- **Domestic market leadership – strong base**
- **Exploiting core competencies – competitive advantage**
 - Low cost - Wal-mart, Carrefour
 - Fashion Reputation - The Gap, Zara, H&M
 - Category dominance - Toys 'R' Us, Office Depot
 - Unique Image, Brand – Disney, IKEA, Starbucks
- **Adaptability**
- **Global Culture**
- **Long-term commitment**



International Market Entry Strategies



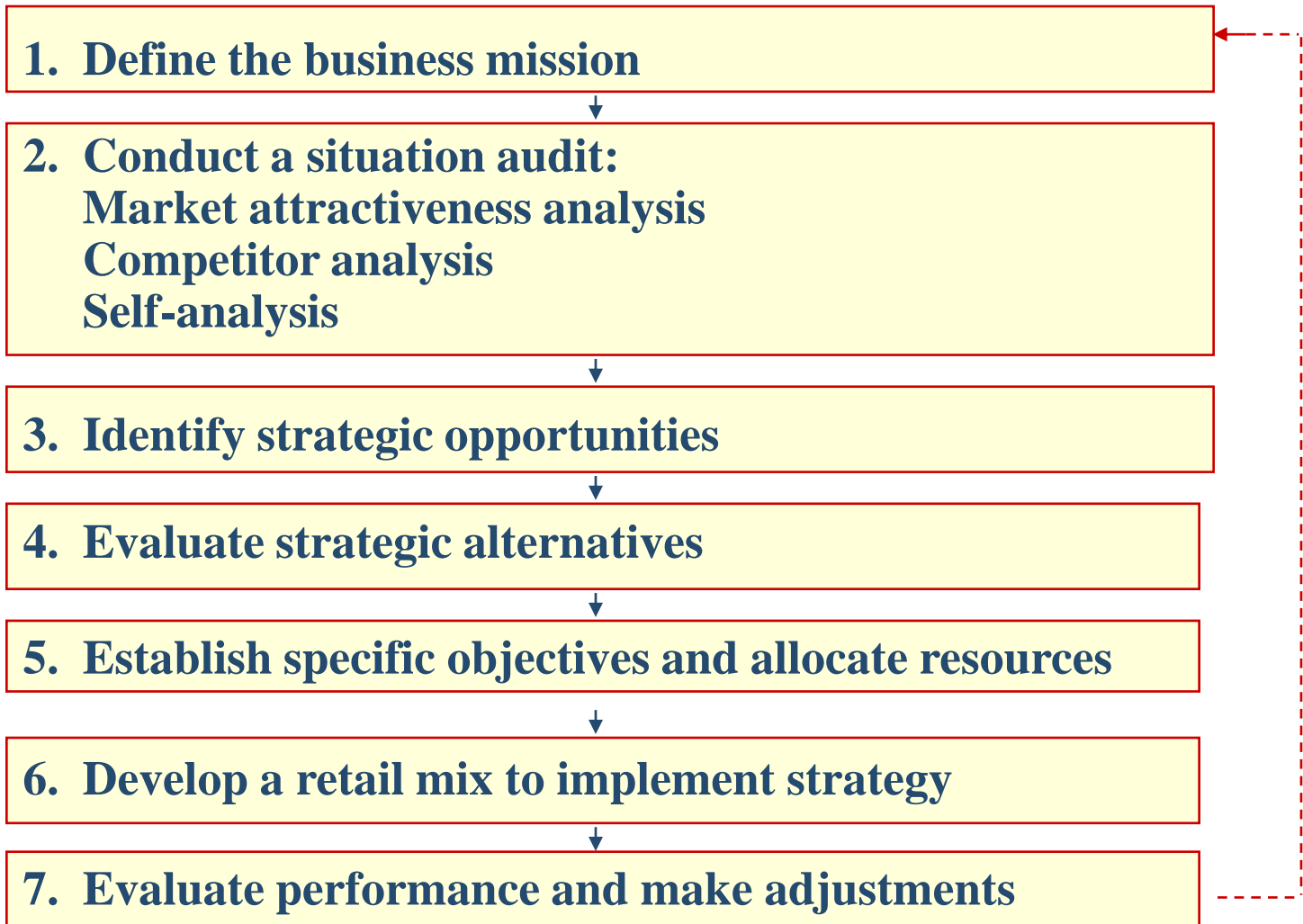
Direct Investment

Joint Ventures

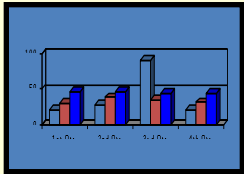
Strategic Alliances

Franchising

Steps in the Strategic Retail Planning Process

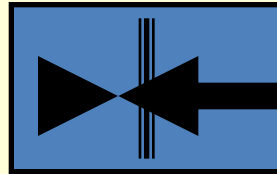


Elements in a Market Analysis



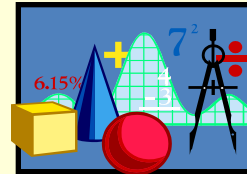
MARKET FACTORS

Size
Growth
Seasonality
Business cycles



COMPETITIVE FACTORS

Barriers to entry
Bargaining power of vendors
Competitive rivalry
Threat of superior new formats



ENVIRONMENTAL FACTORS

Technology
Economic
Regulatory
Social



ANALYSIS OF STRENGTHS & WEAKNESSES

Management capabilities
Financial resources
Locations
Operations
Merchandise
Store Management
Customer loyalty

Strengths and Weaknesses Analysis



Management Capability:

Capabilities and experience of top management
Depth of Management--capabilities of middle management
Management's commitment to firm



Financial Resources:

Cash flow from existing business
Ability to raise debt or equity financing



Operations:

Overhead cost structure
Quality of operating systems
Distribution capabilities
Management information systems
Loss prevention systems
Inventory control system



Merchandising Capabilities:

Knowledge and skills of buyers
Relationships with vendors
Capabilities in developing private capabilities



Store Management Capabilities

Management capabilities
Quality of sales associates
Commitment of sales associates to firm



Locations



Customers

Loyalty of customers

Strategies for Competing in Global Markets

International vs. Global Competition

- International or Multinational Competitor
 - Company operates in a *select few foreign* countries, with modest ambitions to expand further
- Global Competitor
 - Company markets products in *many foreign* countries and is expanding operations into additional country markets annually

Characteristics of Foreign Markets

- market differences among countries
- Cost variations across countries
- Fluctuating exchange rates
- Differences in host government trade policies
- Pattern of International competition
 - ↳ Multi-Country competition or
 - ↳ Global competition

How Markets Differ from Country to Country

- Consumer tastes and preferences
- Consumer buying habits
- Market size and growth potential
- Distribution channels
- Driving forces
- Competitive pressures

One of the biggest concerns of companies competing in foreign markets is whether to customize their product offerings in each different country market to match the tastes and preferences of local buyers or whether to offer a mostly standardized product worldwide.

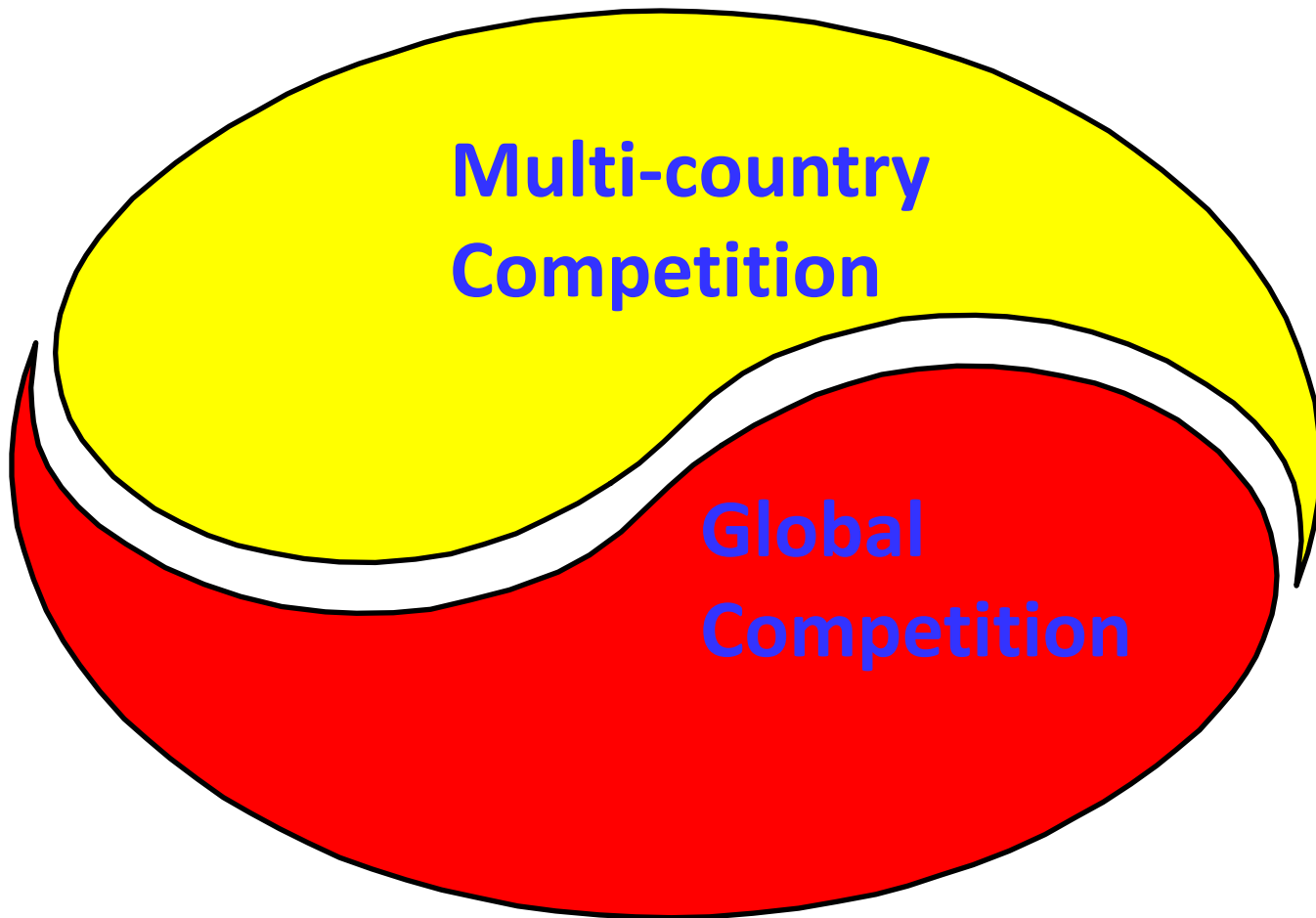
Potential Locational Advantages Stemming from Cost Variations Among Countries

- Variations in manufacturing costs based on
 - Wage rates
 - Worker productivity
 - Natural resource availability
 - Inflation rates
 - Energy costs
 - Tax rates
- Quality of a country's business environment
- Clustering of suppliers, trade associations, and makers of complementary products

Differences in Host Government Trade Policies

- Local content requirements
- Import tariffs or quotas
- Restrictions on exports
- Regulations regarding prices of imports
- Other regulations
 - Technical standards
 - Product certification
 - Prior approval of capital spending projects
 - Withdrawal of funds from country
 - Minority ownership by local citizens

Two Primary Patterns of International Competition



Characteristics of Multi-Country Competition

- Each country market is *self-contained*
- Competition in one country market is *independent* of competition in other country markets
- Rivals competing in one country market *differ* from set of rivals competing in another country market
- Rivals compete for *national market leadership*
- *No “international” market*, just a collection of country markets

Characteristics of Global Competition

- ***Competitive conditions*** across country markets are strongly ***linked*** together
 - Many of the same rivals compete in many of the ***same country markets***
 - Rivals compete for ***world-wide leadership***
 - A ***true international market***
- A firm's ***competitive position*** in one country is ***affected*** by its position in other countries
- A firm's overall ***competitive advantage*** is based on its ***entire*** world-wide operations

Strategy Options for Entering & Competing in Foreign Markets

- Exporting
- Licensing
- Franchising strategy
- Multi-country strategy
- Global strategy based on
 - Low cost
 - Differentiation
 - Focus
 - Integrated Low cost-Differentiation
- Strategic alliances or joint ventures

Characteristics of Export Strategies

- Involves using domestic plants as a production base for exporting to foreign markets
- Excellent initial strategy to pursue international sales
- Advantages
 - Minimizes both risk and capital requirements
 - Minimizes direct investments in foreign countries
- An export strategy is vulnerable when
 - Manufacturing costs in home country are higher than in foreign countries where rivals have plants
 - High shipping costs are involved

Characteristics of Licensing Strategies

- Licensing makes sense when a firm
 - Has valuable technical know-how or a patented product but does not have international capabilities or resources to enter foreign markets
 - Desires to avoid risks of committing resources to markets which
 - Are unfamiliar
 - Present economic uncertainty
 - Are politically volatile
- Disadvantage
 - Risk of providing valuable technical know-how to foreign firms and losing some control over its use

Characteristics of Franchising Strategies

- Often is better suited to global expansion efforts of service and retailing enterprises (e.g., McDonalds, Hilton Hotels, Tricon Global Restaurants, etc.)
- Advantages
 - Franchisee bears most of costs and risks of establishing foreign locations
 - Franchiser has to expend only the resources to recruit, train, and support franchisees
- Disadvantage
 - Maintaining cross-country quality control

Multi-Country Strategy

- ***Strategy*** is ***matched*** to ***local market needs***
- ***Different country strategies*** are called for ***when***
 - Significant country-to-country differences in customers' needs exist
 - Buyers in one country want a product different from buyers in another country
 - Host government regulations preclude uniform global approach
- Two ***drawbacks***
 1. Poses problems of ***transferring competencies*** across borders
 2. Works against building a ***unified*** competitive advantage

Multi-Country Strategies: Examples

- Microsoft in PC Software
 - Localizes PC software to reflect local languages
 - Products localized into more than 30 languages
- Nestle in Instant Coffee
 - Produces 200 types of coffees
 - From light blend for the US market to dark roast for the Latin American market
- McDonald's in Fast Food
 - Different hamburgers for different markets

Global Strategy

- **Strategy** for competing is **similar** in all country markets
- Involves
 - **Coordinating** strategic moves globally
 - **Selling in many**, if not all, nations where a significant market exists
- **Works best when** products and buyer requirements are similar from country to country

Competitive Strategy Principle

A *multi-country strategy* is appropriate for industries where multi-country competition dominates!

A *global strategy* works best in markets that are globally competitive or beginning to globalize!

Competing Multinationally

- **Three** ways to gain competitive advantage
 1. **Locating** activities among nations to lower costs or achieve greater product differentiation
 2. **Efficient/effective transfer** of competitively valuable **competencies and capabilities** from domestic to foreign markets
 3. **Coordinating** dispersed activities in ways a domestic-only competitor cannot

Locating Activities to Build a Global Competitive Advantage

- Whether to
 - **Concentrate** each activity in a few countries **or**
 - **Disperse** activities to many different nations
- **Where** to locate activities -Which country is best location for which activity?

Concentrating Activities

- Activities should be ***concentrated*** when
 - Costs of manufacturing or other value chain activities are meaningful lower in certain locations than in others
 - There are sizable scale economies in performing the activity
 - There is a steep learning curve associated with performing an activity in a single location
 - Certain locations have superior resources, allow better coordination of related activities, or offer other valuable advantages

Dispersing Activities

- Activities should be *dispersed* when
 - They need to be performed close to buyers
 - Transportation costs, scale diseconomies, or trade barriers make centralization expensive
 - Buffers for fluctuating exchange rates, supply interruptions, and adverse politics are needed

Transferring Valuable Competencies & Capabilities

- ***Transferring*** competencies, capabilities, and resource strengths ***across borders*** contributes to
 - Development of ***broader competencies*** and ***capabilities***
 - Achievement of ***dominating depth*** in some competitively valuable area
- ***Dominating depth*** in a competitively valuable capability is a strong basis for ***sustainable competitive advantage*** over
 - Other multinational or global competitors and
 - Small domestic competitors in host countries

Coordinating Cross-Border Activities

- Aligning activities located in different countries contributes to competitive advantage in several ways
 - Choose **where** and **how** to challenge rivals
 - Shift **production** from one location to another to take advantage of most favorable cost or trade conditions or exchange rates
 - Enhance **brand reputation** by incorporating same differentiating attributes in its products in all markets where it competes

What is Cross-Market Subsidization

- Involves **supporting** competitive **offensives** in one market with resources/profits **diverted** from operations in other markets
- Competitive **power** of cross-market subsidization results from a multinational firm's ability to
 - Draw upon its organizational resources and profits in other country markets to
 - Help mount an attack on single-market or one-country rivals and
 - Try to lure away their customers with **lower prices, discount promotions, heavy advertising, or other offensive tactics**

Achieving Global Competitiveness via Cooperation

- Cooperative agreements / strategic alliances with foreign companies are a means to
 - Enter a foreign market or
 - Strengthen a firm's competitiveness in world markets
- Purpose of alliances
 - Joint research efforts
 - Technology-sharing
 - Joint use of production or distribution facilities
 - Marketing / promoting one another's products

Benefits of Strategic Alliances

- Gain scale economies in production and/or marketing
- Fill gaps in technical expertise or knowledge of local markets
- Share distribution facilities and dealer networks
- Direct combined competitive energies toward defeating mutual rivals
- Useful way to gain agreement on important technical standards

Pitfalls of Strategic Alliances

- Becoming too dependent on another firm for essential expertise over the long-term
- Different motives and conflicting objectives
- Time consuming; slows decision-making
- Language and cultural barriers
- Mistrust when collaborating in competitively sensitive areas
- Clash of egos and company cultures

Guidelines in Forming Strategic Alliances

- Pick a good partner, one that shares a common vision
- Be sensitive to cultural differences
- Recognize the alliance must benefit both sides
- Both parties have to deliver on their commitments in the agreement
- Structure decision-making process so actions can be taken swiftly when needed
- Parties must do a good job of managing the learning process, adjusting the alliance agreement over time to fit new circumstances

Figure 11.5 Different Forms of Retail Organization

FUNCTIONAL ORGANIZATION CHART

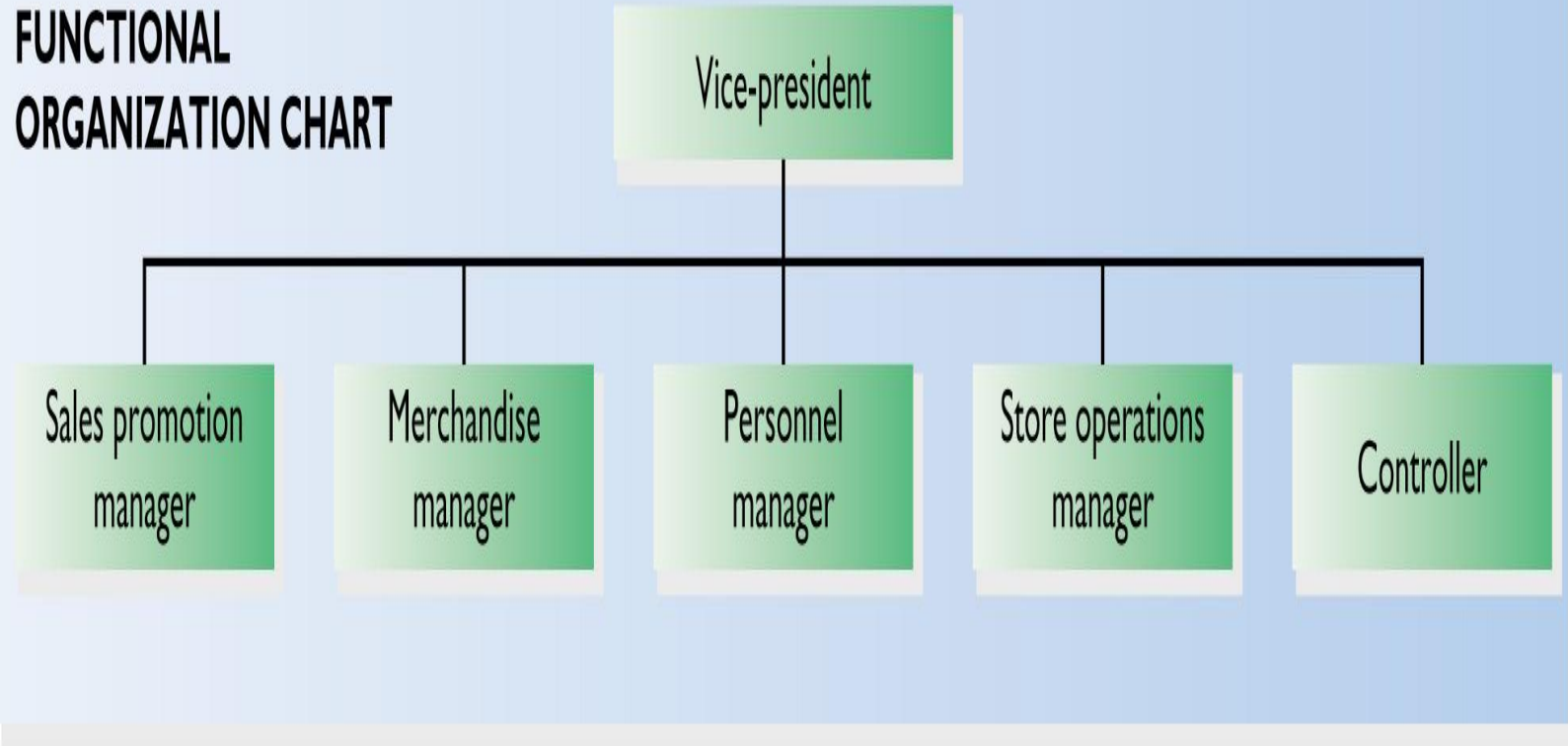


Figure 11.5 Different Forms of Retail Organization

PRODUCT ORGANIZATION CHART

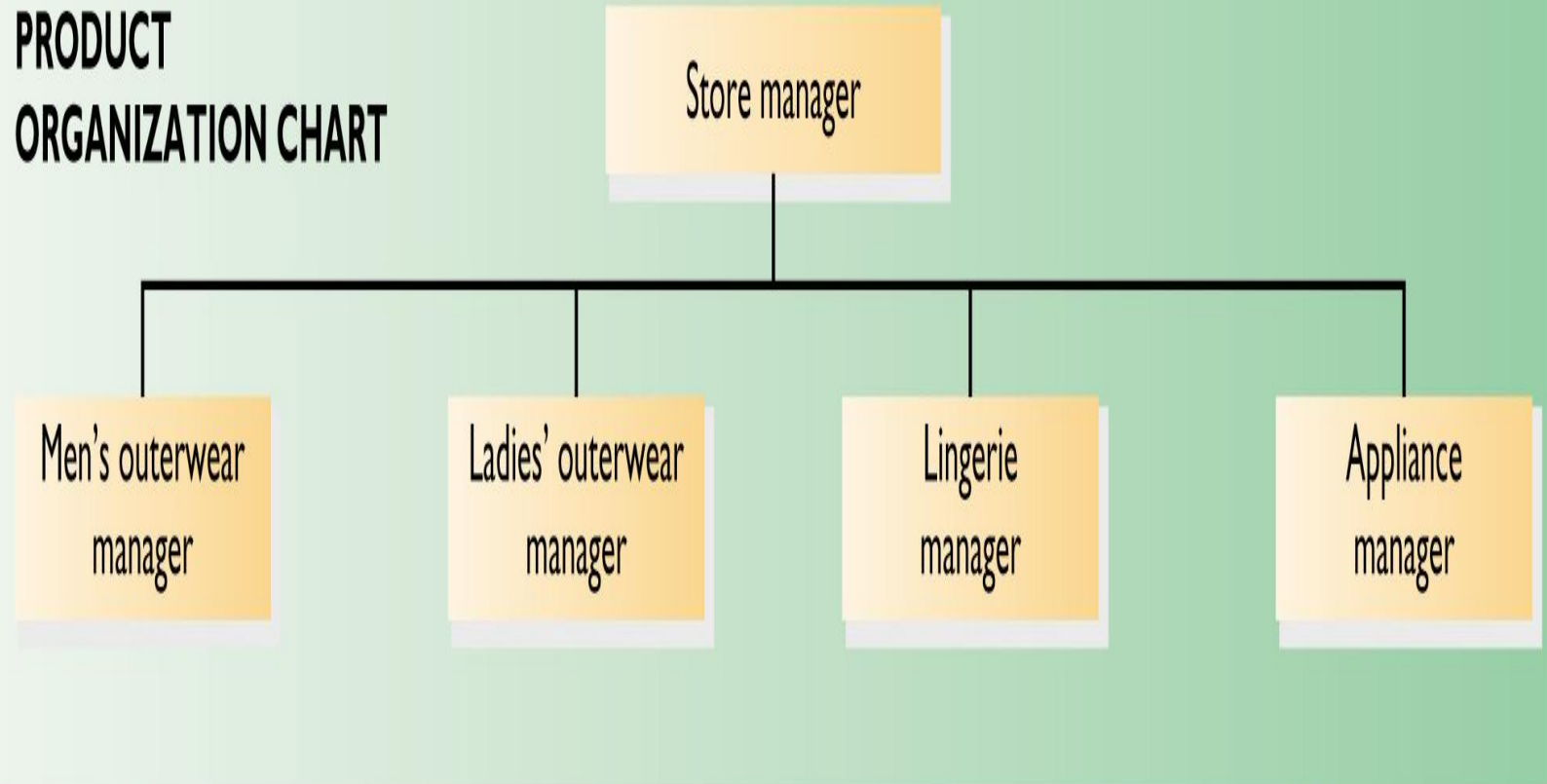


Figure 11.5 Different Forms of Retail Organization

GEOGRAPHIC ORGANIZATION CHART

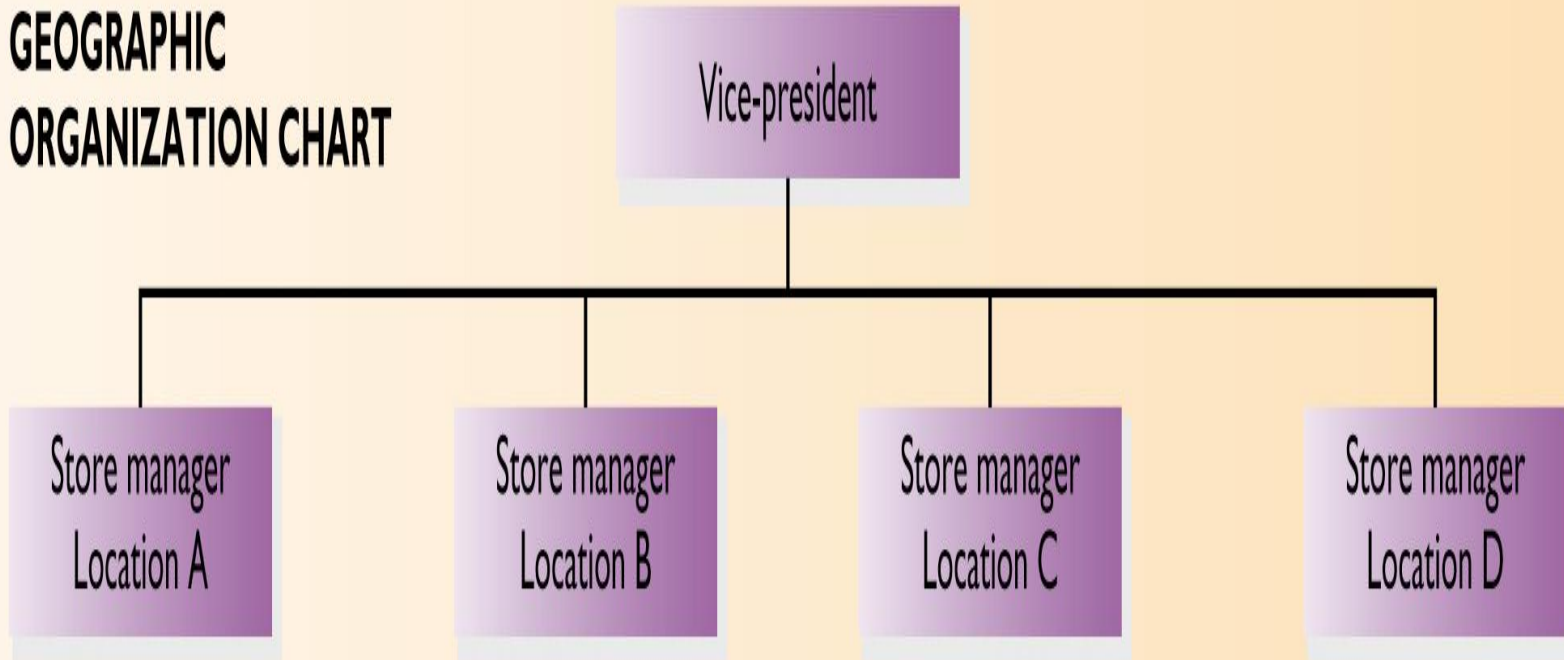


Figure 11.5 Different Forms of Retail Organization

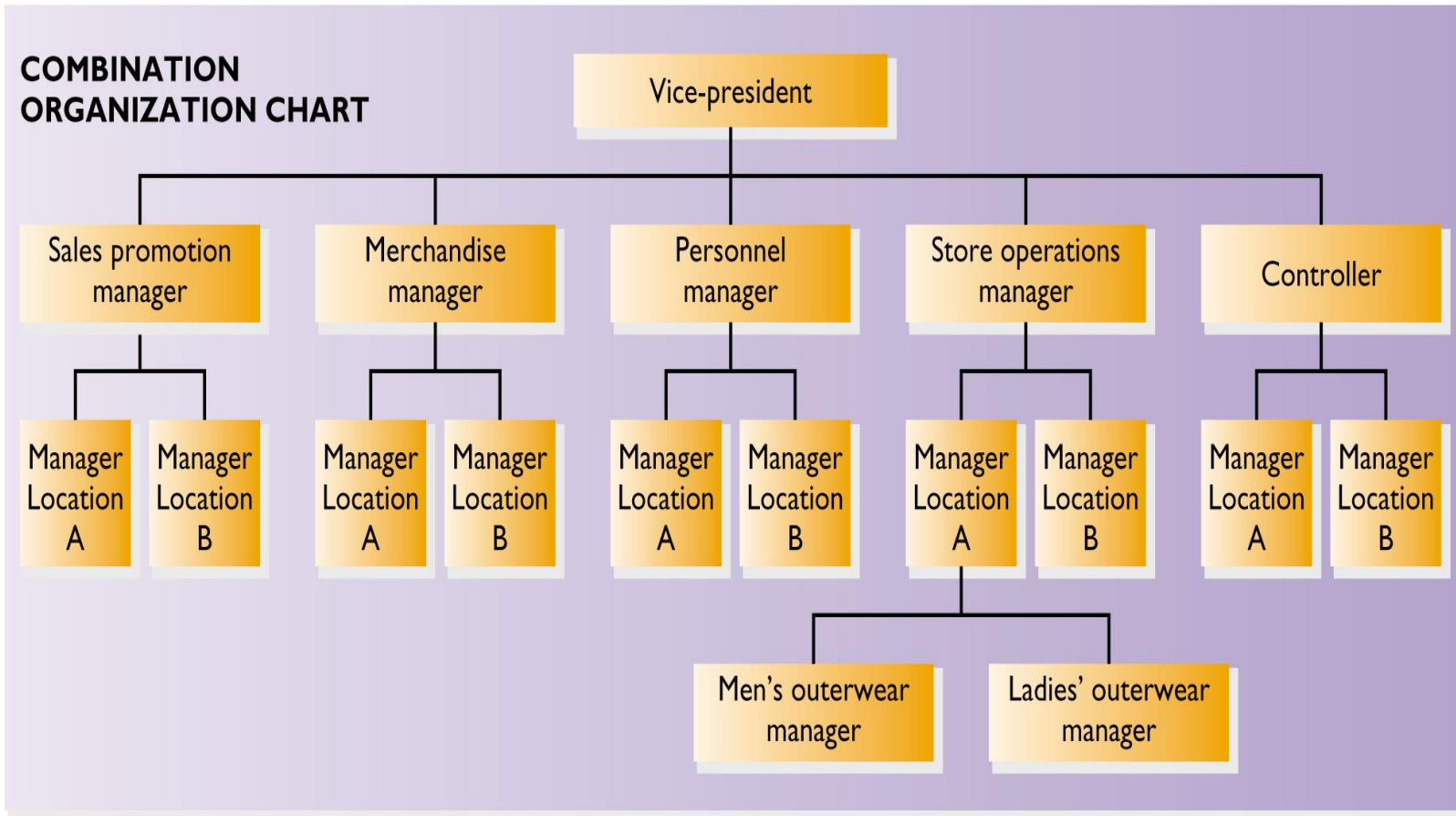
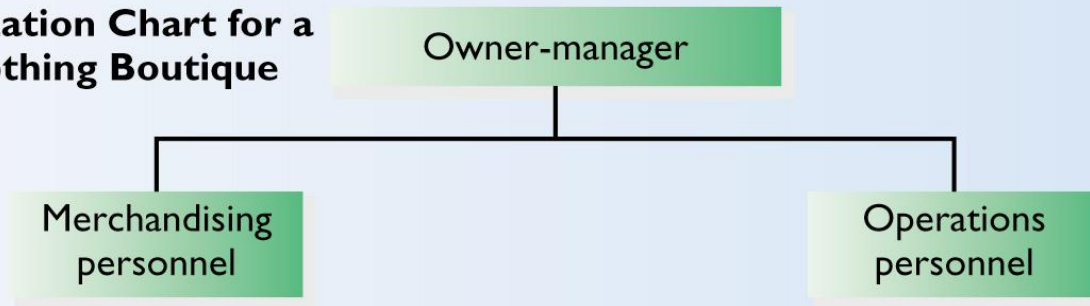


Figure 11.6 Organization Structures Used by Small Independents

A. Organization Chart for a Ladies' Clothing Boutique



B. Organization Chart for a Furniture Store

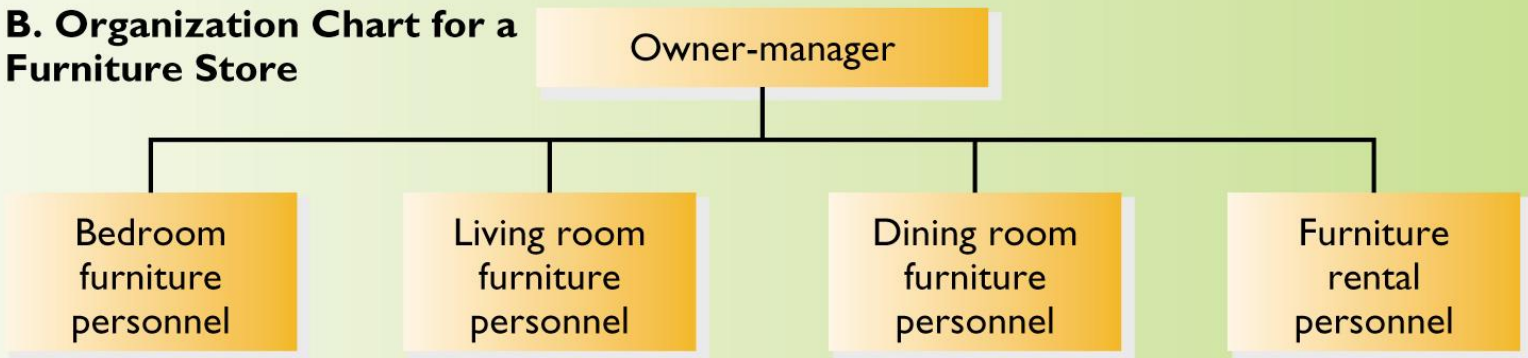


Figure 11.7
 The Basic
 Mazur
 Organization
 Plan for
 Department
 Stores

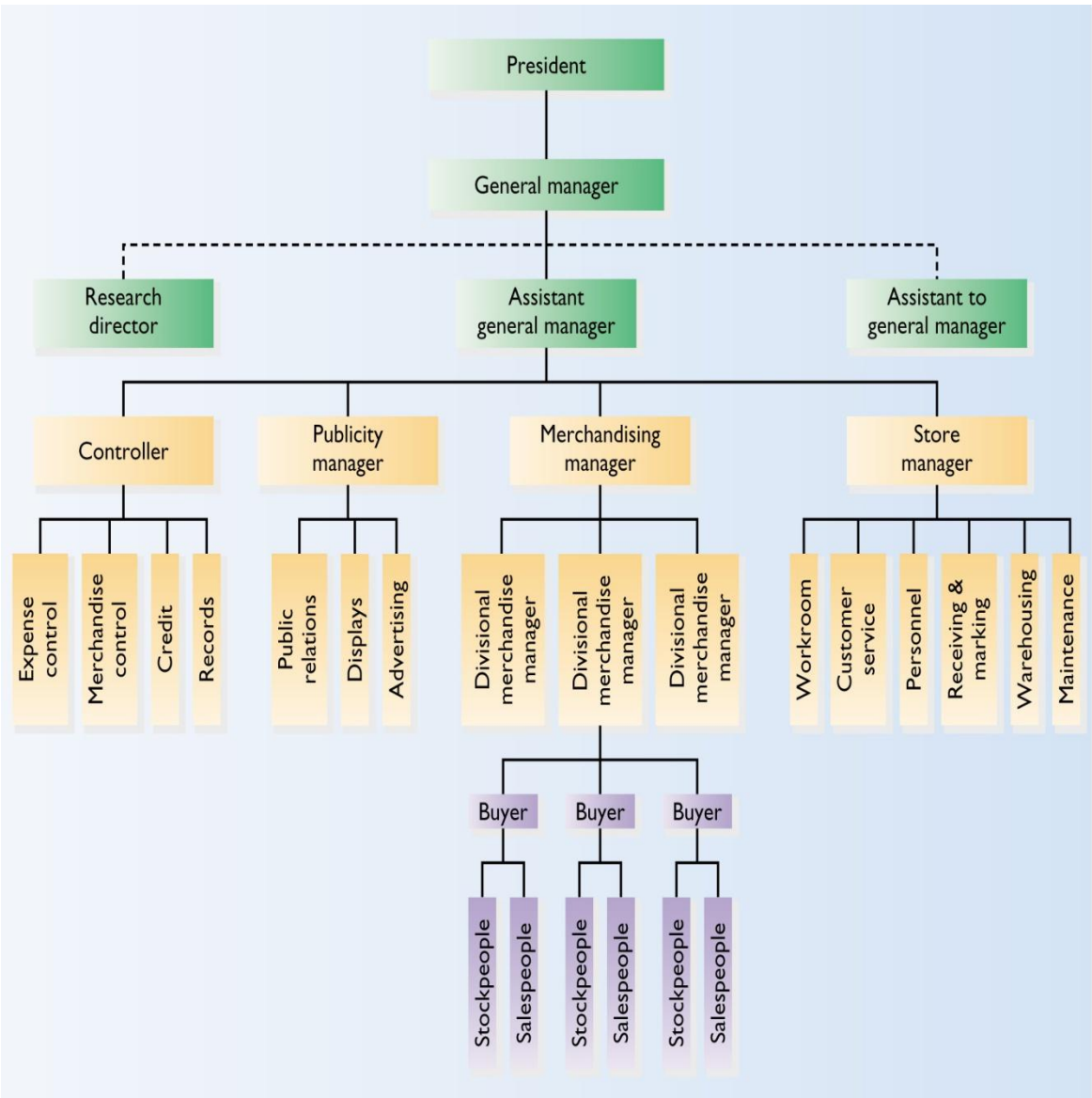


Figure 11.8
 The
 Equal-Store
 Organizational
 Format Used by
 Chain Stores

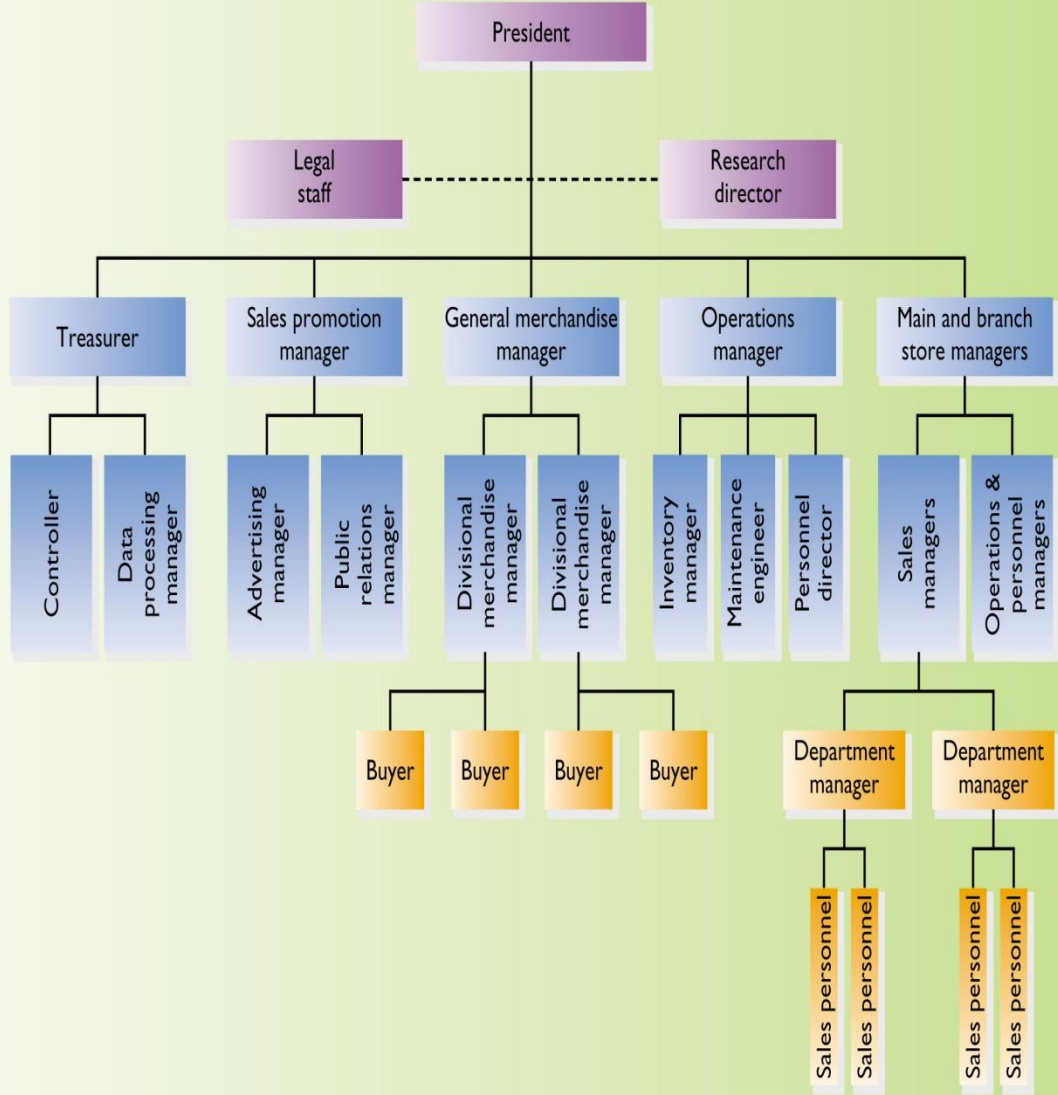
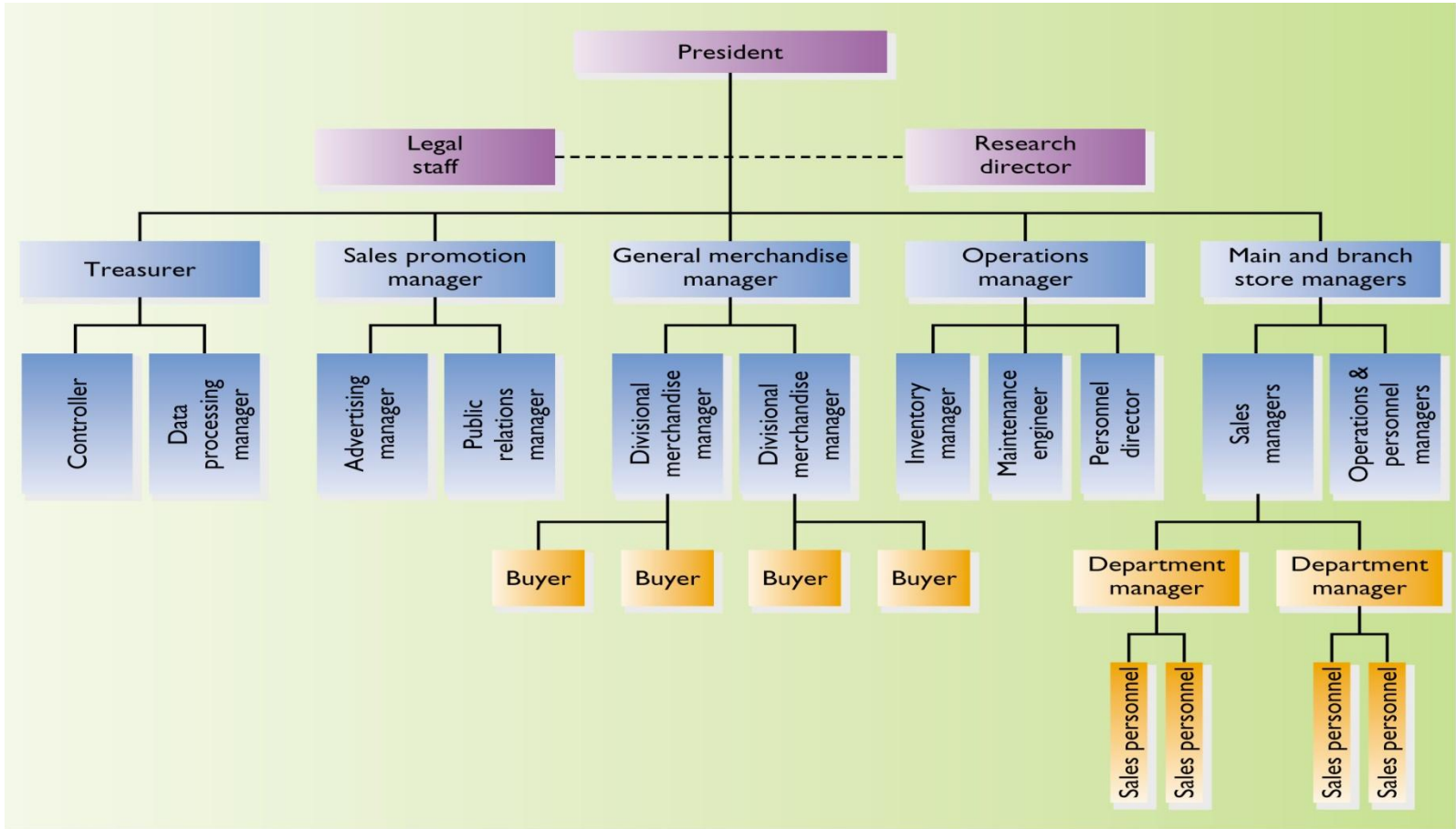


Figure 11.9 The Organizational Structure of Toys “R” Us



Information Technology in retailing



- One of the key factors in achieving an **organized and efficient** retail operation is the use of information technology as an enabler.
- Information Technology is the key enabler in **improving customer satisfaction, operational efficiencies by extension, profitability.**
- Technology has been the great enabler of business and especially retail enterprise.
- We are now wireless and seamless and cashless and everything less and can get any information we want and need.



- Retailers need to transform their IT capabilities for a number of reasons. These include:
 - To **aggregate and analyze customer data** to enhance differentiation.
 - To increase a company's ability to **respond to a rapidly changing marketplace** through enhanced flexibility and speed.
 - To **operate effectively**, retailers need to have **one system working across stores** (sometimes across national borders) to ensure the most effective use of stock and to support optimized business processes.



- Information technology, as defined by the Information Technology Association of America (ITAA), is “the study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware.”
- Encompassing the computer and information systems industries, IT is the **capability to electronically input, process, store, output, transmit, and receive data and information, including text, graphics, sound, and video**, as well as the ability to control machines of all kinds electronically.

Need of IT In Retailing



- Product information – catalogue, availability, new releases, promotion, supply and demand etc.
- Customer information – profile, behaviour, activities, preferences, distribution etc.
- Operations information – logistics, allocation, procurement, schedule, inventory, shelf space

Four factors which are responsible for the need of IT in retail are:



- Intense competition
- Globalizations of business operations
- Organizational changes
- Technology revolution



The retail industry faces many specific challenges related to IT management, including:

- Customer data
- Transparency and tracking
- Global data synchronization
- PCI Security Compliance (Qualified Security Assessor (QSA) or by a firm specific Draft: Internal Security Assessor (ISA))

Some of the applications



Forecasting

- Business leaders engage in this process because much of **what happens in businesses today depends on what is going to happen in the future.**
- Modern demand-forecasting systems **provide new opportunities** to improve retail performance. Large-scale systems are now capable of **handling the mass of retail transaction data – organizing it, mining it and projecting it into future customer.**
- This new approach to demand forecasting in retail will contribute to the **accuracy of future plans, the satisfaction** of future customers and the **overall efficiency and profitability of retail operations.**

Inventory Management



- To optimize the deployment of inventory, **retailers need to manage the uncertainties, constraints, and complexities across their global supply chain on continuous basis.** This allows them to improve their inventory forecasting ability and accurately set inventory targets.
- An IT solution is a proven and market leading solution for **determining optimal time-varying inventory targets for every item, at every location throughout supply chain.** This allows retailers you to significantly reduce inventory without adversely affecting service levels.

Store Management



- A store is commonly a shop or stall for the retail sale of commodities, but also a place where wholesale supplies are kept, exhibited, or sold.
- An in-store system uses **magnetic strips or barcodes or RFID** to monitor actual versus intended product location on the floor or in the stockroom.

Information System Applications in Retail Industry



Retail Store Front

- Some of the store front technology initiatives:
 - POS and Peripheral Applications
 - Payment Applications
 - Store Management Solutions

Retail Store Back end operations



Creative adoption of technology is spearheading the change. Innovative examples of this are:

- Store Inventory & Warehouse Management
- Time & Attendance Tracker
- Auto Replenishment & Store Orders
- Personnel Management solutions
- Time and Attendance, Computer- Based Training
- Store Inventory Management
- Stock locator, Direct Store Delivery, Auto Replenishment
- Store Warehouse Management

Types of online retailing



Four types;

- **Manufacturer-Direct**
- **Catalog Merchant**
- **Multi-Channel Merchants: Bricks and Clicks**
- **Virtual Merchant**

Direct retailing



- Television: has two forms
 - Long form
 - Short form
- Forms of direct response retailing on television include standard short form television commercials, infomercials and home shopping networks.
- Short-form direct-response commercials have time lengths ranging from 30 seconds to 2 minutes.
- Long form infomercials are typically 30 minutes long.

Mobile



- Through mobile marketing, marketers engage with prospective customers and donors in an **interactive manner through a mobile device or network**, such as a cell phone, Smartphone, or tablet.
- Types of mobile marketing messages include:
 - *SMS* (short message service)—marketing communications are sent in the form of text messages, also known as texting.
 - *MMS* (multi-media message service)—marketing communications are sent in the form of media messages.

Electronic data interchange



- Involves **using computer technology to exchange information** – or data – electronically between two organizations, called “Trading Partners.”
- Technically, EDI is a set of standards that define common formats for the information so it can be exchanged in this way.
- Many businesses, government agencies and other organizations use EDI every day in the regular course of business.
- That’s because EDI makes doing business together a **more automated and efficient process.**
- Digital technology can help ensure **greater information security compared to paper documents.**

Benefits of EDI



- Lower costs
- Higher efficiency
- Improved accuracy
- More supply chain visibility
- Enhanced security
- Greater management information
- ❖ The process involves mapping, translations and communication

E-Retailing strategy



- **Why E-Retailing Strategy?**

To evaluate the feasibility of an online retail format. It provides a comparatively low cost alternative channel to the retailers keeping in mind their overall brand and retail strategy.

- **For Whom?**

- Retailers looking to enhance sales by selling online
- Online retailers planning to improve various aspects of their retail offerings
- Entrepreneurs venturing into online retail formats

How?



Why Integrated Retail?



Integrated Retail combines several strengths:

- Retail IT solutions for chain retailers across verticals such as: specialty, hypermarkets, department store, supermarkets, food-service and kiosk retailing
- A client base of over 100 retail companies across Asia, in retail automation solutions Dedicated, **multi-lingual, 24 X 7 help desk for supporting clients** of specialty retail solution companies in the US
- **Consultants engaged by leading IT systems integration companies to assess the business needs of multi-billion US\$, multi-country and multi-format retail companies**

New Technologies Evolved In Retailing



- Radio Frequency Identification (RFID)
- Smart Operating System (Credit cards and wifi)
- Point of Sale

