



CONSULTING CONNOISSEURS



## Advantage Retail

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THE QUALITY OF BEING PREDICTABLE WITH GREAT CONFIDENCE



## Introduction

Retail, most times, is associated with a variety of challenges that are complex due to the spectrum of possibilities that it offers. However, from a pure strategy management point of view, this industry is possibly best positioned due to

1. The 'distance' it has to their consumer (practically 'zero') giving numerous possibilities to be in-sync with the consumer and
2. The dependence it has with any of its individual customers (again virtually none).

This is different from all other kinds of businesses where every business has a defined customer base, some of them being significantly bigger than the others. In retail, though loyalty is an important aspect, it is the combined effect of a large number of customers that actually gets the ball rolling in the other direction. Retail also has the advantage of having the maximum number of 'strategic options' that are intricately tied to the flexibility of the interface.

Having these advantages, this sector also has some marked disadvantages. It can safely be said that this industry is the 'first formal presence of competition'. That being said, as most of us are aware, it is also rightful to say that it is extremely sensitive to competition. Hence, 'sustained competitive advantage' actually translates to some kind of a 'sustained cost or value advantage' for each geographic area. Further, unlike manufacturing, an increase in the scale of operations of a unit store doesn't translate to an increase in profits. Hence, it is a constant battle for optimality. The retail network itself is, thus, a huge 'cash cow' with a highly potent 'self branding' ability.



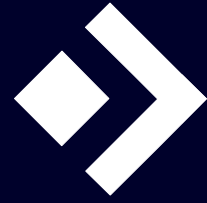
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## Modeling Retail: A Complex Challenge

Lets try to understand the factors that work on a retail value chain. While there have been numerous methods to classify retail markets, the simplest understanding is provided by combining the Maslow's theory of hierarchy of needs and the economic price elasticities of demand models. And there is a reason associated with this classification. It provides a sound basis for understanding the 'risk diversification strategy' and takes into consideration the 'market cycle perspective', both at the same time; thus, helping the business owner assess the value provided by his business from multiple perspectives. The logical driver is, therefore, a macro-economic treatment to business strategy; starting with the needs and translating it into value parameterized by various economic elements. For instance, the norms in the lifestyle would actually define the 'sensitivity to the price' or the 'elasticities of demand' that the local customer base would have. Further, income distributions and changes in the income distributions could significantly affect the norms and the understanding of the value propositions brought by the business. These are well addressed by the model spoken about.

While logic is a strong driver in the analysis, there are a lot of aberrations or discrepancies in customer or consumer behaviour. Unlike industrial products, therefore, this sector is having a strange characteristic at defying logical behaviour that is conditioned by various factors; market, environment and consumer perception. It is not necessary here, to discuss issues on the rationality and the logic of consumer behaviour, rather it is necessary to understand that there is a huge gamut of possibilities that could come between the strategy and the 'successful outcomes' of the successful strategies. Another interesting challenge is that this sector is characterized by price wars that actually modify perceptions of consumers and define a multitude of positions on the cost-price-volume relationships for the individual assortments. Unlike manufacturing though, many of these decisions are more 'operational' rather than 'strategic' in the ball court of retailing.



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### Basic Operational Issues

Amidst the challenges to modeling, there are strong strategic fundamentals that govern the profit equations of this industry. The two key elements include **the supply chain and the costs**. Every retail unit must ensure a good handle on availability. This is a typical challenge for most retailers as it is the single most important driver to customer value. A good handle on product availability implies a first step towards ensuring quality Placement, Product and Promotion; all essential elements for defining any retail brand. Do you think you have a good handle on product availability? Do you face situations or stock-outs and surpluses very often? Are you facing issues with your forecasts or situations with contrasting volumes of inventory and estimated demand (the bullwhip)? Do you think you are trying to manage stocks by putting items on sale a little too often? If yes, you might need to rework your supply chain management strategy. To find the best solution to ensure appropriate availability, contact us now.

The second biggest challenge in retailing is that of the **utilization of resource pools**. At the operational level, this industry is subject to extremes or adverse conditions for the resource pools. Again unlike manufacturing, leveling methods fail to serve the purpose in retailing. For instance, long queues at the clearing counters might actually reduce the value proposition of the retailing institution. At the same time, long periods of idle time during 'slow' business hours could also be a cause of concern to the employer due to poorer margins. Do you have extremes when it comes to the utilization of the work force? Is there a significant change in the quality of services, from the customer's perspective, from time to time? Do customers complain about their waiting hours? If yes, you are a probably candidate for a process optimization intervention for your employees. To help rationalize your resource pool issues, contact us now.

Following these two operative improvement methods, there is a possibility of a global **optimization of hardware** associated with your retail unit. Do you have issues about where to place your products, how to service them and how to allocate them for sale at the store or along the distribution network? Are you having issues with getting accurate information? Are you able to see the trends in wastages? Do you think you are giving sufficient shelf space for fast moving products? Are you having the right mix of criteria for technological investments to be rated well for your business? If you see issues with any of these areas, then you might want to consider an optimization of the hardware at your retailing institution; starting from the layout, allocation, process alignment, cash movements and technological enablement. A re-engineering of your hardware would always assist cost reduction and improve asset returns by optimizing the supply chain. To help identify the optimal configuration of commodities for the business, contact us now.

### Strategic Issues and Perspectives

While diversification has different meanings to different people, in the context of retail the ease of diversifying and managing the portfolio makes different combinations meaningful. It provides with an alternate chance for the business unit where, unlike manufacturing, exiting might be the only resort for the company. Further, it strengthens the portfolios to establish a better flow of profits for the businesses. Diversification is a step that calls for careful consideration. One needs to assess a diversification proposition not just from the margins envisioned, rather from the 'ripple' perspective. Every macro-economic alteration of the market causes a ripple before falling back to a steady state. This ripple needs to be understood and evaluated for optimizing the strategic options of the business from the macro perspective.

Services usually are more sensitive to economic changes. This sector has to be wary of price wars and has to be having a good hold of the market through streamlined cost reduction measures. The price sensitivity, again in this case, is significant. The services are typically characterized by resource pools. Through proper optimization one can maximize the resource pools. Help reduce your costs. For a confidential discussion, contact us now.

While retailing has its intrinsic value of being a channel partner for reaching the customer, it also helps the customer by providing him with variety. However, a retail unit can also add newer dimensions to its value proposition in order to better position itself in the economy. Do you have a solid business proposition for your manufacturers? Do you have a strong presence in defining the impact on the economy of your country at a macro level? To increase your business value to your interfacing partners and boost your corporate image, contact us now.

### Concluding Remarks

Having talked about the value proposition, one should also look at the risks associated with the management of the strategic options for retailing. Two of the largest risks are

1. The upstream focus of the industry and
2. The formulation of the strategy which is often based on aggregation rather than looking at the localized impact of the business.

Amidst the strategic options hovering around the strategic parameters of value added services, quality of services and understanding the temporal nature of the options, one has to be wary of the potential hazard an upstream focus can bring in. Further, the strategy based on aggregation actually is a strategy to fail, especially if it is not optimizing the costs and leveraging its 'local component' to the 'local economic realities' of the business environment!

Streamline your retail business now. Contact us now.

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## About the Author



*Rotarian Nikhil S. Gurjar is the President of Consulting Connoisseurs, a new generation management consulting company based out of Navi Mumbai. The company specializes in providing solutions based on both conventional methods in management consulting as well as the state of the art tools using modeling and simulation. With several years of experience in Europe and the US, Nikhil Gurjar is one of the few experts in the country who understands and uses these tools for business applications and policy research. He is also associated with agencies like CII, PPMAI, MSME for different types of services. Before the launch of the company, Nikhil was the Head of Planning at a very large Greenfield steel project in the US. For more details, visit [www.consultingconnoisseurs.com](http://www.consultingconnoisseurs.com).*