

5.2 Trends in retail

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|---------------------|
| PRODUCT |
| DISTRIBUTION |
| PROMOTION |
| PEOPLE |
| FINANCE |
| RISK |
| GROWTH |

- > *The global industry*
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The global industry

The world of retailing has changed dramatically since the emergence of department stores, chain stores and supermarkets in the early 1900s. The driving forces then were mass production, wide distribution, the emergence of effective advertising, consumer credit systems and innovative customer service offerings such as formal return policies. The same factors are continuing to impel the industry toward globalism, supported by the opening up of world economies, falling transport costs, rising standards of living, and the emergence of popular culture as a global phenomenon.

| Name | Home country | Annual sales (\$US) |
|----------------|--------------|---------------------|
| Wal-Mart | US | \$180.8 billion |
| Carrefour | France | \$61.0 billion |
| Kroger | US | \$49.0 billion |
| Home Depot | US | \$45.7 billion |
| Royal Ahold | Netherlands | \$45.7 billion |
| Metro | Germany | \$44.2 billion |
| Kmart | US | \$37.0 billion |
| Sears, Roebuck | US | \$36.8 billion |
| Albertson's | US | \$36.8 billion |
| Target | US | \$36.4 billion |

World's 10 largest retailers by annual sales in 2000 (\$US billion)

| Country | Total retail sales (\$US) | % of GDP |
|----------------|---------------------------|----------|
| United States | \$2,251.0 billion | 23 |
| Japan | \$1,089.0 billion | 23 |
| Germany | \$446.6 billion | 24 |
| China | \$392.0 billion | 36 |
| United Kingdom | \$313.1 billion | 22 |
| France | \$286.2 billion | 22 |
| Italy | \$257.6 billion | 24 |
| India | \$221.8 billion | 47 |
| Canada | \$131.0 billion | 18 |
| Mexico | \$95.2 billion | 17 |

World's 10 largest retail markets in 2000 (\$US billion)

Ten top trends

10 key forces characterise modern global retailing.

1. Home market saturation

Excess capacity has emerged in most markets, with excess retail space in Western Europe and the US. This has tended to squeeze less efficient retailers, and put pressure on surviving retailers to differentiate themselves. Australia is experiencing the same trend, with supermarket chains like Franklins disappearing in the last decade and Coles Myer and Woolworths controlling a large slice of the supermarket sector. Woolworths' 'fresh food' emphasis is a successful attempt to differentiate itself from competitors.

2. Global expansion

Retailers approaching saturation in their home markets are also looking outward to new markets globally. With 8% of its sales now outside the US, Wal-Mart, the world's biggest retailer, has been expanding steadily in international markets, moving into Canada, Mexico, the United Kingdom and Germany. The company now has about 2.5% of the world's \$7.2 trillion retail sales. Global expansion has triggered a long wave of mergers and acquisitions worldwide. This has not yet had a big impact in Australia, but the appearance of Aldi in the eastern states is a sign of things to come.

3. Operational efficiency

Larger retailers are able to obtain significant purchasing and distribution economies, giving them a marked cost and therefore price and profitability advantages over smaller players. Retailers are ruthlessly pursuing operational efficiency, centralising purchasing, consolidating warehousing and organising their own distribution systems.

4. Changing consumer shopping patterns

The growing number of women in the workforce often retain some traditional responsibilities for household administration, including food and grocery shopping. Shoppers are demanding greater time-efficiency, encouraging destination stores such as hypermarkets with a broad range of goods in one location, and more flexible shopping hours. Shoppers are also increasingly value-conscious, moving to store formats with price advantages, such as hypermarkets, food barns and warehouse clubs.

5. Active product development

Retailers are increasingly involved earlier in the supply chain, participating in product design and development, and commissioning their own manufacturing.

6. The reinvigoration of house brands

House brand products emerged in the 1960s as an important marketing tool, and were used to great effect by discount supermarkets in particular. Recently Coles announced a new focus on house brand products, with the introduction of three price points.

7. Multi-channel retailing

Multi-channel retailing is becoming important as a way of extending the bricks and mortar store and as a defence against e-tailers. A typical mix includes physical stores, catalogue and Internet sales. Catalogue companies have had a long history in the US, but limited success in Australia. Specialty stores such as Pumpkin Patch are using Internet-based consumer clubs to market new ranges and seasonal sales directly to loyal customers.

8. Range extension

Supermarkets still have the biggest share of retail sales, but their share is declining relative to mass channel retailers—hypermarkets, supercentres, discount department stores and warehouse clubs. To maintain growth, supermarkets like Coles, Woolworths and Bi-Lo are extending the lines they carry into non-traditional areas. Examples include the move by Woolworths into petrol, and the sale of financial and telecommunications services through supermarkets. Another example is the move by retailers to sell value-added services around retail products: for example, the home improvement store that offers tool rental, product installation, general home maintenance services and even home improvement loans around its core business—DIY tools and materials.

9. The rise of the category killer

Other categories to gain market share include specialty hardware and whitegoods stores. In a range of focused lines—books, consumer electronics, home furnishings, home improvement, office supplies and toys, for example—category killers have emerged to take share from mass channel retailers and supermarkets. 'Category killers' offer a deep selection within a product category, typically in large warehouse-style premises. Overseas examples include Borders and Toys 'R' Us. Australian examples include Harvey Norman, JB Hi-Fi and Officeworks. Recent arrivals in the food industry include Boost, Cibo, Hudsons, Wok in a Box, Gloria Jean's and Michel's Patisserie.

10. Demand chain technology

Technology is making larger organisations more and more manageable, and facilitating instant, remote, global stock control and financial management. The late 1990s saw a major focus on integrating point of sale data collection systems and internal management systems. The focus has now shifted to external demand chain integration, with retailers insisting that manufacturers, suppliers and distributors link directly into their

own stock management systems. Retailers are experimenting with the possibilities of emerging technologies: for example, Wal-Mart recently required the suppliers of its top 100 products to incorporate intelligent wireless (RFID) tags in their products.



Books

Don Taylor and Jeanne Smalling-Archer, *Up Against the Wal-Marts: How Your Business Can Prosper in the Shadow of the Retail Giants* (2nd ed, Amacom, 2005)

Paco Underhill, *Why We Buy* (Touchstone, 2000)

Acknowledgments

Retail statistics taken from World Business Almanac (Bloomsbury, 2002)