

E352 – Retail Logistics

P01 – Link it Up



SCHOOL OF
ENGINEERING

Retailing – Definition



- Retailing is a business that sells products or services, or both, to consumers for their personal or family use

Or

- Retailing consists of the final activities & steps needed to place a product made elsewhere into the hands of the consumer or to provide service to the consumer
- Retail satisfy consumer by having the right merchandise, at the right price, at the right place, at the right time
- Retailers are the final business in a distribution channel that links manufacturers to consumers

Importance of Retail



- Include every living individual as customer
- Largest single industry in most nations, including Singapore and UK.
- In UK, there are more than 2.77 million employees in retail establishments, generating more than £325 billion in 2010
- In Singapore there are thousands of establishment, with total of 143,300 workers in the retailing sector in 2010.
- For textile & apparel retail alone, the revenue for 2010 was already \$6.184billion



Classification of Retailers



- There are two ways to classify retailers
 - By retail type
 - By retail ownership
- By retail type
 - Food retailers: KFC, McDonalds, S11
 - General merchandise retailers: NTUC, Cold Storage, BHG, Isetan, Tangs, etc
 - Electronic retailers: The Apple Store, Hello! Shop
 - Service retailers: Singapore Airline, DBS Bank, Raffles Hotel
 - E-retailers: Dell, Amazon, eBay Singapore

Classification of Retailers

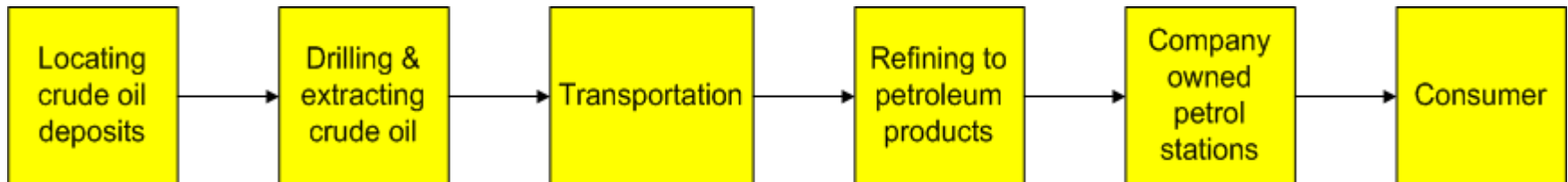


- ▶ By retail ownership
 - ▶ Independent retailing
 - ▶ Retail owned by individual / independent company
 - ▶ E.g. shop below the HDB flat (mama shop)
 - ▶ Government shops
 - ▶ Shops owned by government, mainly used for service retailing
 - ▶ E.g. Singapore Power, Singapore Water
 - ▶ Corporate retailers
 - ▶ Retailers owned by private corporation
 - ▶ E.g. Hugo Boss, H&M
 - ▶ Franchising
 - ▶ Right or license granted by a company to an individual or group to market its products or services in a specific territory
 - ▶ E.g. Starbucks, KFC, McDonald

Vertical Integration



- Vertical integration is when a company performs more than one set of activities within the distribution channel
 - E.g. BP, Shell – Mining, refining & selling of oil
 - Hugo Boss – Design & sale of fashion items
- Example of BP vertical integration supply flow:



- Good vertical integration allows the supply chain coordination to be improved & gaining access of distribution channel, but lack the flexibility & the production cost is high

Vertical Integration



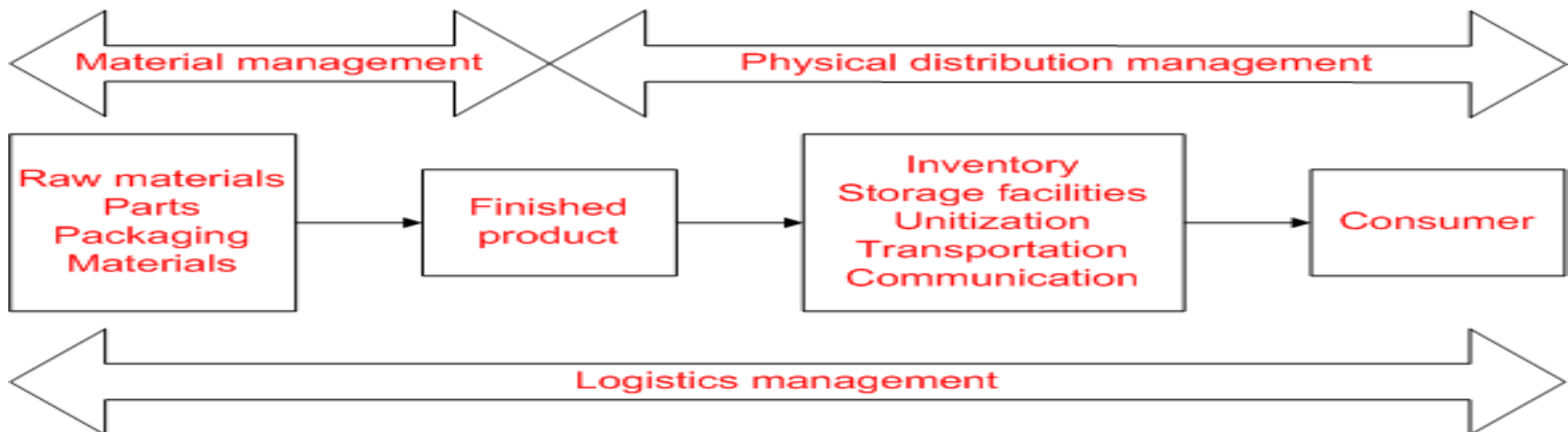
- 3 main types of vertical integration
 - Full integration
 - Forward integration
 - Backward integration



Logistic Management



- ▶ Retailing & logistics are concerned with product availability
 - ▶ Getting the right product to the right place at the right time
 - ▶ Coping with volatile changes in consumer demand

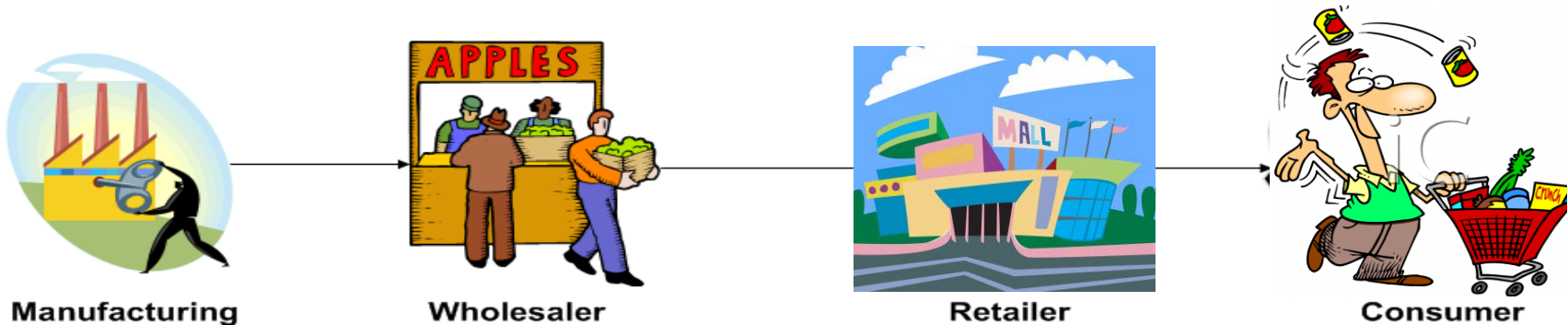


- ▶ With appropriate logistics, products can have better quality, cheaper, having a longer shelf-life & fewer instances of stock outs

Distribution Channel – Definition



- A distribution channel is a set of firms that facilitate the movement of products from the point of production to the point of sale to the consumer



- The distribution channels are generally chosen by the producer of the product, keeping in mind factors such as the nature of the product, type of customers, market size, level of control & size of retailers

The Need for Distribution Channel



- ▶ Many producers are too large or too small to handle all necessary functions to get their products to market
- ▶ Too small
 - ▶ Small company may not have enough resources (e.g. market, logistic capability) to push their product to the market
 - ▶ An intermediary who works for several small, non competing firms can easily handle these functions cost-effectively
- ▶ Too big
 - ▶ Big companies are not willing to diversify their focus to too many other work
- ▶ With the help of wholesaler & retailers, the manufacturers are able to focus on products

Traditional Distribution Channel Vs Vertical Integration



- ▶ Vertical integrated companies perform multiple functions in the distribution channel, whereas in the traditional distribution channel, multiple companies perform a single specify function in the distribution channel



Functions Performed by Retail Logistics



- ▶ Provide storage facilities
 - ▶ Help retailers keep stock in anticipation of, or react to demand for goods
- ▶ Inventory management
 - ▶ Decide on the amount of stock to hold for each product & the location to meet demand changes
- ▶ Transportation
 - ▶ Manage transportation operation of different forms & sizes of the vehicle, as well as scheduling & availability of drivers & vehicles
- ▶ Unitization & packaging
 - ▶ Obtain products that are easy to handle, do not cost too much to package, yet retain their selling ability on the shelves
- ▶ Communications
 - ▶ Capture data at appropriate points in the system & use them for more effective logistic operation

Globalisation



- ▶ Maturation of domestic markets
 - ▶ As the local market is getting concentrated, retailers often sees greater opportunities in other countries
- ▶ Advancement in skills & systems
 - ▶ As the information collected by these retailers are easily transferrable, global sourcing & logistic managements make global expansion easier to do
- ▶ Breaking of trade barriers
 - ▶ Relaxation of trade barriers between countries makes the global expansion easier
- ▶ E.g. Apple launches its iPhone 4S in more than 43 countries world wide, with different partnership (ATT in USA, SingTel in Singapore).

Global Trends



- Environmental issues
 - As goods now travel globally, the increase in distance means more vehicles used for transportation
 - This in turn creates environmental problems such as extra pollution
- E-Commence
 - Popularity of internet has make the "purchasing without leaving home" possible
 - Almost any major retailers & companies have a website that displays their products directly to the customer
 - E-Commerce also makes purchase from other countries possible

Concept of 4Ps



- In retail , the concept of 4Ps is widely used for strategy positioning of a product in the market
- **Product** – A tangible object or intangible service that is mass produced or manufactured on a large scale with a specific volume of units
 - E.g. cars and laptop
- **Price** – The amount that customer pays for the product.
 - Determined by factors such as competition, material cost, product identity etc

Concept of 4Ps



- **Place** – The location where a product **can be sold**
 - Often referred as distribution channel
 - Include either the physical store (e.g. NTUC) or virtual store (e.g. EBay Singapore)
- **Promotion** – All of the **communications** that retailers may use
 - Advertising (e.g. TV commercials)
 - Public relations (e.g. Sales staff)
 - Word of mouth (e.g. Customer to customer momentum)
 - Point of sale (POS)

Concept of 4Ps



Summary



- Okinana is looking at vertical integration, they want to integrate forward. They were just the manufacturers and now they also want to move further downstream to be the retailers.
- Okinana will have to looking into their distribution network. The management will have to decide whether or not they should handle their own distribution to their retail store or get a 3rd party.
- There are many types and different ownership models for retailers. In the case of Okinana, they would be classified under corporate retailer and we can term them as Healthcare merchandise retailers.
- 4Ps is the basic of retailing. Okinana's management must understand the 4Ps in order to help them strategised their retailing plans

Learning Outcomes



- Explain the various retailing model
- Describe the concept of vertical integration
- Evaluate the functions performed by retail logistics and its importance
- Introduce the concept of 4P and state its importance in the retail industry

