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Porter's Five Analysis of retail industry with IGT Infogloabltech

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The CoSaCS application is a retail application that is used by the business for sales of various products. For this purpose, the sales and maintenance of the products and finance is performed by many modules and sub-modules within the application.

Today, post integration of Cosacs, with 3rd parties serving in Jamaica we have a meaningful insight to the retail sector serving in Central America, the Caribbean, South America, and the United States. Migrating our services with Mambu a loan management system, EMMA Customer onboarding system, allowed IGT to dive deeper into, the functional process of the application, .net technology, c#, SQL scripts of the CoSaCS application.

As a leading information technology service provider IGT provides a solution, batch processing that saves hundreds of hours of human effort of updating the legacy system CoSaCs with sales happened on daily basis. Caribbean Licensing Corp. a subsidiary of Unicomer Group is the owner of the CoSaCs application suite. CoSaCS was developed by Courts, a furniture and electronics brand in the United Kingdom in 1850. Unicomer/ Caribbean Licensing Corp acquired the courts brand for the Caribbean and Latin American market and the rights to ownership of CoSaCS software. Initially CoSaCS was supported and enhances by BBSL (Blue Bridge Solutions Pvt. Ltd, United Kingdom) for some time it is managed by Caribbean Licensing Corp IT, and 3rd party provides.

JMBlueStart a migration/integration project is an migration of CoSaCS services with 3rd party providers (EMMA, Mambu, Oracle Xstore, etc). Here, in Porter's Five Forces of Retail Industry, case study let us look into bottlenecks of retail industry.

I . Competitive Rivalry

The Competitive rivalry is the frequency and intensity of reactions to actions undertaken by Competitors. When rivalry is high, price war erupts, employee raids occur, advertising and promotions expenses increase and profit potential falls.

Question: How to interpret differences between competitive Retailers?
Retailing is a fast moving, challenging industry, Retailing includes all the activities in selling goods or services directly final consumers for personal, non-business use. A retailer or retail store is any business enterprises whose Sales volume comes primarily from retailing.

Any organization selling to final consumer – Whether it is manufacturer, wholesaler or retailer is doing retailing. It doesn't matter how the goods or services are sold (In person, by mail, by telephone, by vending machine, or online) or where (in store, on the street, or in consumer's home). If we understand the types of retailers, we will be able to accost the differences in competitive retailers.

Types of retailers: Consumer today can shop for goods and services at Store retailers, Non-Store retailers.

Store retailers

The best type of Store retailers is the department store. Different formats of store retailers will have a different competitive and price dynamics.

Retailers also meet widely different consumer preferences for service levels and specific services. Specifically, they position themselves as offering one of four levels of service.

1. Self Service: Self Service is the corner stone of all discount operations. Many customers are willing to carry out their own "Locate compare Select" process to save money.
2. Self Selection: Customers find their own goods, though they ask for assistance.
3. Limited Service: These retailers carry more shopping goods and services such as Credit and Merchandise, return privileges. Customer need more assistance and information like benefits.
4. Full service: Sales People are ready to assist in every phase of the "Locate Compare Select" process. The high Staffing cost and many services, along with the higher proportion of speciality goods and slower moving items result in high cost retailing.

Major types of Store Retailers	
Speciality Store	Narrow Product Line
Department Store	Several Product Lines
Supermarket	Large, Low Cost, Low-margin, high-volume, self-serivce store designed to meet total needs for food and house hold product
Convenience Store	Small store in residential area, often open 24/7, limited line of high turnover convenience products
Drug Store	Prescription and pharmacies
Discount Store	Standard or speciality merchandise, Low-price, Low-margin, High-Volume stores
Extreme Value or Hard-discou	A more restricted merchandise mix than discount stores but at even lower prices
Off-Price retailer	Leftover goods, overruruns, irregular merchandise sold at less than retail
Superstore	Hige Selling space, routinely purchased food and household items, plus services
Catalogue Showroom	Brand selection of high-markup, fast-moving, customers pick up merchandise at the store

Non Store Retailing

Although the overwhelming bulk of goods and service is sold through stores, Non Store retailing has been growing much faster than store retailing especially with e-commerce and m-commerce. Pero how Non Store Retailing agitate ability to serve customers?

Non Store retailing falls under four categories Direct marketing (which includes telephone marketing, online selling), direct selling, automatic vending, and buying services.

1) Direct marketing has roots in direct-mail and catalogue marketing. It includes telemarketing, television direct response marketing, and online shopping.
2) Direct selling also called Multilevel selling and network marketing with companies selling door to door or through home sales parties or through home sales parties. A salesperson goes to the home of a host who has invited friends. The salesperson demonstrates the products and takes order. The multilevel network marketing sales system works by recruiting independent businesspeople who act as distributor. This distributor's compensation includes a percentage of sale made by those he or she recruits as well as earnings on his or her own direct sales to customers. These direct selling firms now finding fewer consumers at home, are developing Multi Distribution Strategies.
3) Automatic Selling offers a variety of merchandise including impulse goods. Vending machines are found in factories, offices, large retail stores, gasoline station, hotels, restaurants, and many other places. They offer 24 hours selling, self service, and merchandise that is stocked to be fresh.
4) Buying Service: Buying Service is a store-less retailers serving a specific clientele usually employees of large organizations – who are entitled to buy from a list of retailers that have agreed to give discounts in return for membership.

Corporate Retailing and Franchising

Major Types of Corporate retail Organizations	
Corporate Chain Store	Two or more outlets and controlled, employing central buying and merchandising, and selling similar lines of merchandising
Voluntary Chain	A wholesaler-sponsored group of independent retailers engaged in bulk buying and common merchandising.
Retailer Cooperative	Independent retailers using a central buying organization and joint promotion efforts
Consumer Cooperative	A retail firm owned by its customers. Members contribute money to open their own store, vote on its policies, elect a group to manage it, and receive dividends,
Franchise organization	Contractual association between a franchisor and franchisees, popular in number of product and service areas
Merchandising Conglomerate	A corporation that combines several diversified retailing lines and forms under central ownership, with some integration of distribution and management

Although many retail stores are independently owned an increasing number are part of a corporate organization. These organizations achieve economies of scale, greater purchasing power, wider brand recognition, and better trained employees than independent stores can usually gain alone. The major types of corporate retailing=corporate chain stores, voluntary chains, retailers and consumer cooperatives, franchise and merchandising conglomerates.

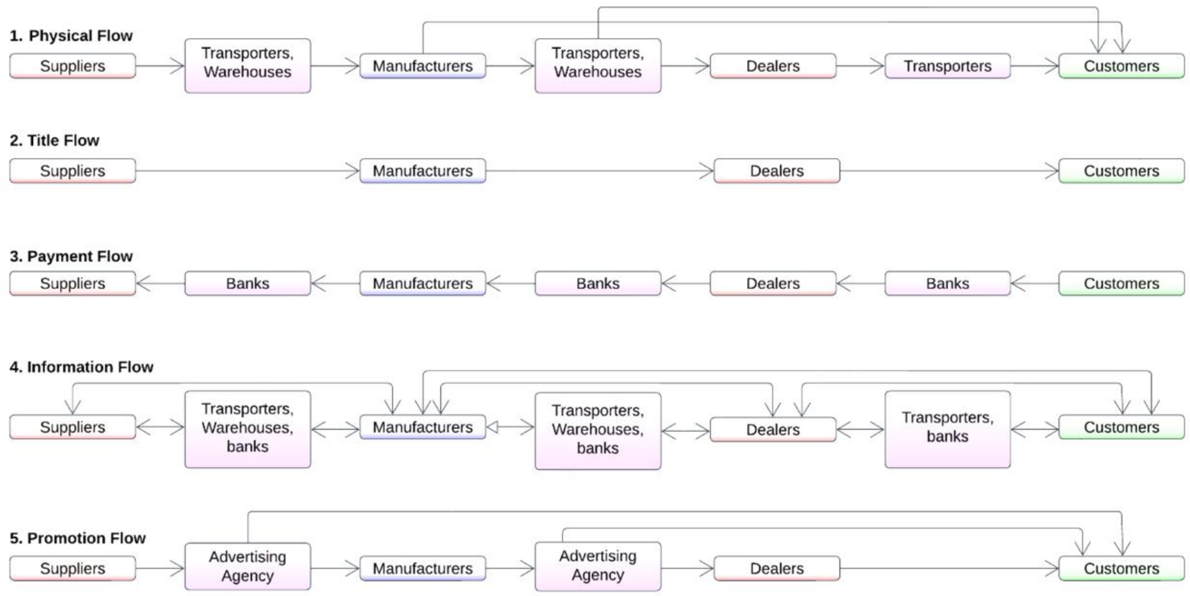
In a franchising system, individual franchisees are a tightly knit group of enterprises whose systematic operations are planned, directed and controlled by the operation's innovator called a franchisor. Franchisor are distinguished by three characteristics.

1. The franchisor owns a trade or service mark and licenses it to franchisees in return for royalty payments.
2. The franchisee pays for the right to be in system, Certain percentage of sales plus monthly rent.
3. The franchisor provides its franchisees with a system for doing business.

Franchisees do walk a fine line between independence and loyalty to the franchisor. Some franchisor are giving their franchisees freedom to run their own operations, Hence we recognize the retailers; Pero how are it relative to cost?

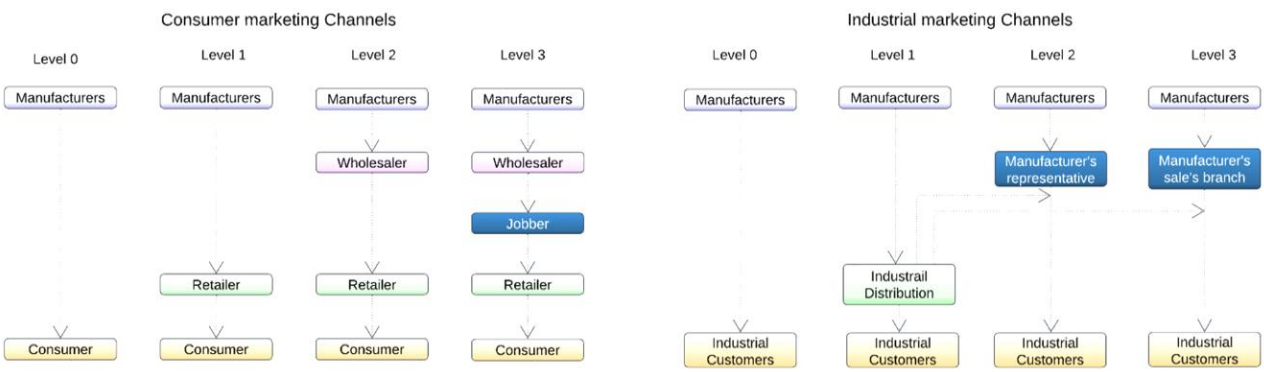
Question: Which factors causes High fixed costs? How to scrutinize these parameters?
The question to marketers in not whether various channels, functions need to be performed they must be – but, rather who is performing them. All channel functions have three characteristics in common: They use up in short supply of resources. They can often be performed better through specialization and they can be shifted among channel members. Shifting some functions to intermediaries lowers the producer's cost and prices but the intermediary must add a charge over its work. If the intermediaries are more efficient than the manufacturer prices to consumers should be lower. If consumer perform some functions themselves, they

should enjoy even lower prices.



Five Marketing Flows in the marketing channels for Scehduled Delivery

Changes in channel largely reflect the discovery of the Economic functions that provide assortments of goods



Consumer and industrial marketing channels

to target customers.

Question: How to create value in times of slow growth?
Successful Value creation need successful value delivery, holistic marketers are examining the whole supply chain as a value network including their supplier's supplier upstream and their distribution customers downstream.

A supply chain view of firm sees markets as destination points and amounts to a linear view of the flow ingredients and components through the production process to their ultimate sale to customers. The company should first think of the target market, however, and then design the supply chain backward from that point. This strategy has been called demand chain planning.

			Demand Generation tasks									
			Gather relevant information	Develop & disseminate communications	Reach Price agreements	Place orders	Acquire funds for inventories	Assume risks	Facilitate product storage & movement	Facilitate Payment	Oversee Ownesh Transfe	
Marketing Channels and methods	Vendor	Internet										Customers
		National account management										
		Direct sales										
		Telemarketing										
		Direct Mail										
		Retail Stores										
		Distribution										
		Dealers and Value added resellers										

The Modern retail marketing environment, The retail environment is dramatically different today from what it was just a decade ago. Here are two areas that have seen enormous change: Competitive retail market structure and the role of technology.

<u>Competitive Retail Market Structure</u>

The retail market is very dynamic, and a number of New types of competitors have emerged in recent years. Here are five important developments.

1) New retail forms and combinations: To better satisfy customers need for convenience a variety of new experimenting with "Pop Up" stores that let them promote the brands to seasonal shoppers for a few weeks in busy areas. Internet companies use pop up stores as an easy way to establish a physical presence during holiday shopping season.

2) Growth of retail retailers: Through their superior information systems, logistical system and enormous buying power; retailers are able to deliver good service and immense volume of product to masses of consumers at appealing prices. They are crowding out smaller manufacturers that cannot deliver enough quantity and often dictate to the most powerful ones what to make, how to price and promote it, when and how to ship it, and even how to improve production and management. Some giant retailers are category killers that concentrate on one product category, with the broad product service, category killers wipe out many smaller speciality retailers.

3) Growth of intertype Competition: One consequence of the growth of the super-centres is that department can't worry of other department stores. The reality is that different types of stores can all compete for the same consumers by carrying the same type of merchandise.

4) Emergence of Fast retailing: Fast retailing requires thoughtful decisions in a number of areas, including new product development, sourcing, manufacturing, inventory management, and selling practices.

5) Decline of middle market retailers: We can characterize the retail market today as hourglass shape. Growth seems to be centered at the top and at bottom with discount pricing. As discount pricing retailer improve their quality consumer have been willing to trade down.

<u>Role of Technology.</u>

Technology is Profoundly affecting the way retailers conduct virtually every facet of their business. Almost all now use technology to product forecast, control inventory costs and order from supplier reducing the need to discount.

Technology is also directly affecting the consumer shopping experience inside the store. Electronic shelf labelling allows retailers to change price levels instantaneously at need. Retailers are experimenting with virtual shopping screens, audio/video presentation and QR code integration.

Retailers are also developing fully integrated digital communication strategies with a well designed web sites, emails, search strategies, and social media campaign

Ⅱ. Threat of new entrants

Barrier to entry are conditions in the retail market that make it difficult for other firms to enter the market. Some of these conditions are:

- Customer loyalty
- Availability of great location
- Scale Economy

Calculating Customer Lifetime Value.

Researcher and Practioners have used many different approaches for modelling and estimating customer lifetime value. Columbia's Don Lehmann and Harvard's Sunil Gupta recommend the following formula to estimate CLV for a not yet acquired customer.

CLV = $\sum_{t=c}^{t} \frac{(P_t - C_t) r_t}{(1+i)^t} - A_c$

A key decision is what time horizon to use for estimating CLV, typically three to five years is reasonable.

P_t = Price paid by customer at time t
C_t = Direct cost of servicing the customer at time t
i = discount rate or cost of capital for firm
r_t = Profitability of customer repeat business.
A_c = Acquisition Cost
t = Time horizon for estimating CLV.

Company that wants to form strong, tight connections to customers should need specific considerations, here are three marketing activities that improve loyalty and retention:

1) Interacting closely with customers: Connecting customers, clients, patients and others directly with company employees is highly motivating and informative. End user can offer tangible proof of the positive impact of the company's product and services, express appreciation of employee, contribution, and empathy. Listening to customer is crucial to customer relationship management.
2) Develop Loyalty programs: FPs Frequency programs are designed for customer who buy frequently and substantial amounts. They can help build long term loyalty with high CLV customers. FPs can become financial burden to all the offering companies but some companies are efficient and creative in managing them. Club membership programs attract and keep those customers responsible for the largest portion of business. Club membership can be opened for everyone, who purchases a product or service or limited to an affinity group or those who pay a small fee.
3) Create institutional ties: The company may supply business customers with special equipment or customer link that help them manage orders, payroll and inventory. Company that provides proprietary software programs, marketing research, sales training, and sales leads to loyal customers.

Availability of Great location

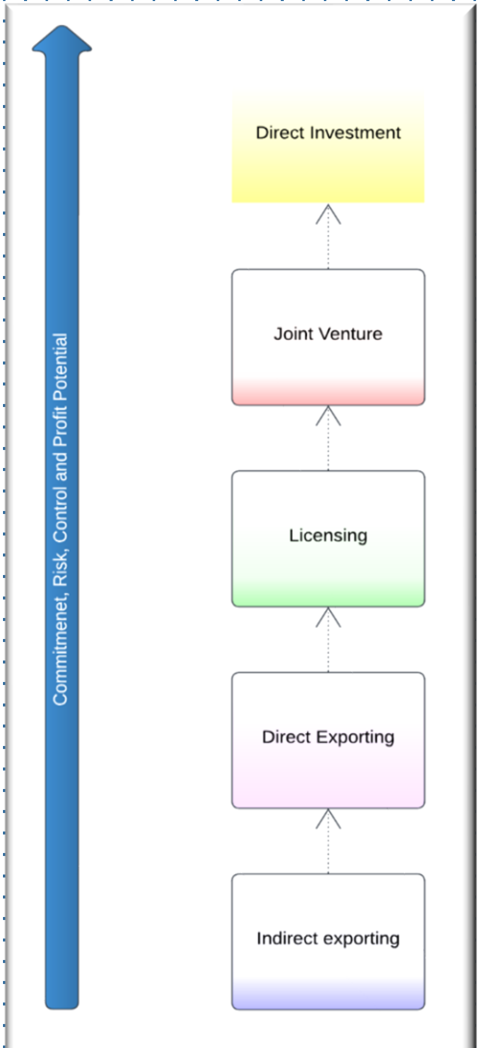
The best area for locating stores are those that generate the highest long-term profits for retailer. Some factors affecting the long terms profit generated by stores include: 1) the Economic Conditions, 2) Competition, 3) The strategic of area's population with retailer's target market, 4) the costs of operating stores.

Most companies will develop a plan to roll out over time. In choosing roll out market the primary criteria are market potential, the company's local reputation, the cost of filling the pipeline, the cost of communication media, the influence of the area on other areas and competitive penetration. Small companies select an attractive city. Large companies introduce their product into a whole region and move to the next. Companies with national distribution networks such as furniture companies increasingly rolling out new products simultaneously across globe. However masterminding a global launch poses challenges and a sequential rollout across countries may still be best option.

Question: What types of locations are available to retailers?
Question: What are the relative advantages of each location type?
Question: Why are some locations particularly well suited to specific retail strategies?
Question: Which types of locations are growing in popularity with retailers?

The third factor contributing to high entry barriers is **Scale Economy**.

Scale Economy: Deciding how to enter Market.



Five model entry in Foreign market

Regional economic integration: The creation of trading agreements between countries has intensified in recent years. This means companies are most likely to enter entire region at the same time, some countries has formed free trade zones or economic communities. Groups of nations organized to work toward common goals in the regularization of international trade.

Once a company choose a particular country, it must target the best mode of entry with its brands. Its broad choices are indirect exporting, direct exporting, licensing, joint ventures and direct investment. Each succeeding strategy entails more commitment, risk, control and profit potential. Five ways company can tap Scaling Economy

1) Indirect and direct export
2) Licensing
3) Joint Ventures
4) Direct Investment
5) Acquisition

Indirect and direct export.

Companies typically start with export, specifically indirect exporting – Domestic based merchants buy the manufacturer's products and then sell them abroad. Domestic-based export agents, including trading companies, seek and negotiate foreign purchases for a commission. Companies may eventually decide to handle their own exports. The investment and risk are somewhat greater, but so is the potential return. Direct exporting happens in several ways.

- Domestic-based export department or division: A purely service function may evolve itself into a self-contained export department operating as its own profit centre.
- Overseas Sales branch or subsidiary: The Sales branch handles sales and distribution and perhaps warehousing and promotions as well. It often serves as a display and customer service centre.
- Travelling Export Sales representative: Home Based sales representatives travel abroad to find business.
- Foreign-based distributors or agents. These third parties can hold limited or exclusive rights to represent the company in that country.

Successful companies adapt their websites to provide country specific content and services to their highest potential international markets. Finding free information about trade and exporting has never been easier. Here are some places to start a search

www.trade.gov	U.S department of Commerce's International Trade Administration
www.exim.gov	Export-Import Bank of the United States
www.sbo.gov	U.S Small Business Administration
www.bis.doc.gov	Bureau of Industry and Security, a branch of the Commerce Department

Licensing

Licensing is a simple way to engage in international market. The licensor issues a license to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at little risk. The licensee gains production expertise or well known product or brand name. Finally, Company can enter a foreign market through Franchising. A more complete form of licensing. The Franchisor offers a complete brand concept and operating system. In return the franchisee invests in and pas certain fees to the franchisor.

Joint Ventures:

Historically, foreign investors have often joined local investors in a Joint Venture company in which they share ownership and control. To reach more geographic and technological markets and to diversify its investments and risk, companies form joint ventures with financial institutions. A joint venture may be necessary or desirable for economic reasons. The foreign firm might lack the financial, physical, or managerial resources to undertake the venture alone or the foreign government might require joint venture as a condition for entry. The value of a partnership can extend far beyond increased sales or access to distribution. Good Partners share "brand values" that help maintain brand consistency across markets.

Direct Investments

The ultimate form of foreign involvement is direct ownership. The foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities. If the market is large enough, direct investment offers distinct advantages. First, the firm secures cost economies through cheaper labour or raw materials, government incentives, and freight savings. Second the firm strengthens its image in the host country because it creates jobs. Third the firm deepens its relationship with the government customers, local suppliers, and distributors, enabling it to better adapt its products to the local environment. Fourth the firm retains full control over its investment and can develop manufacturing and marketing policies that serve its long-term international objectives. Fifth the firm ensures its access to the market in case the host country insists that locally purchased goods must have domestic content.

The main disadvantage of direct investment is that the firm exposes a large investment to risks like blocked or devalued currencies, worsening markets, or expropriation. If the host country requires high severance pay for local employees, reducing or closing operations can be expensive.

Acquisition

Rather than bring their brands into certain countries, many companies choose to acquire local brands for their brand portfolio. Strong local brands can tap into customer sentiment in a way international brands may find difficult.

Ⅲ. Threat of Substitutes

Private equity firms have been making significant investments in retail firms,

Private equity firms are firms that invest their money and solution money of others, such as union pension funds, financial institutes gratuity, university endowments. Rather than buying stock in companies, private equity investors buy the entire company from its stakeholders improve the efficiency and the firms (often by hiring new senior management, and then sell the acquired company several years later)

Private equity firms find retailers attractive investments because many of them have strong cash flows, Whereas the typical small investor focuses on profits and return on assets, private equity firms are interested in Cash Flow. The money that the retailers generate from its operations a company with high cash flow reduces the risk of bankruptcy and provides money in improving efficiency such as improving infrastructure or remodelling services.

Retailers frequently have undervalued assets, such as well-known private label brands leases for space in attractive locations, or the land on which their stores are located. A private equity company can sell these assets after it acquires a retailer or use the assets as collateral to get loan.

The recession and accompanying credit crisis have dampened private equity firms' interest in Retail acquisitions. In the past many of these acquisitions were financed with short term acquisition replaced with permanently financing but private equity firms have had trouble getting permanent loans since late 2007. Finally, the dramatic drop in real estate values and increasing vacancies in the retail sector have taken away the safety net created by the undervalued real estate.

This leaves the retail sector in a vulnerable position with Suspicious threat of substitute.

Ⅳ. Bargaining power of Buyers and Suppliers

Bargaining Power: How to strengthen it?

Bargaining Power is a relative ability of parties in an argumentative situation (such as bargaining, contract writing,, or making an agreement). If both parties are on equal footing in a debate then they have equal bargaining power such as perfectly competitive market.

These are number of fields where the concept of bargaining power has proven crucial to coherent analysis, including gametheory, labour economics, collective bargaining arrangements, diplomat negotiation, settlement of litigation, the price of insurance and negotiation in general.

Several formulation of bargaining power have been devised. A popular one from 1951 and due to American economist Neil W Chamberlain.

$$Bargaining\ Power\ of\ A\ (BP_A) = \frac{Benefits\ and\ costs\ that\ can\ be\ inflicted\ upon\ party\ B}{Party\ A's\ cost\ of\ not\ Agreeing}$$

$$Bargaining\ Power\ of\ B\ (BP_B) = \frac{Benefits\ and\ costs\ that\ can\ be\ inflicted\ upon\ party\ A}{Party\ B's\ cost\ of\ not\ Agreeing}$$

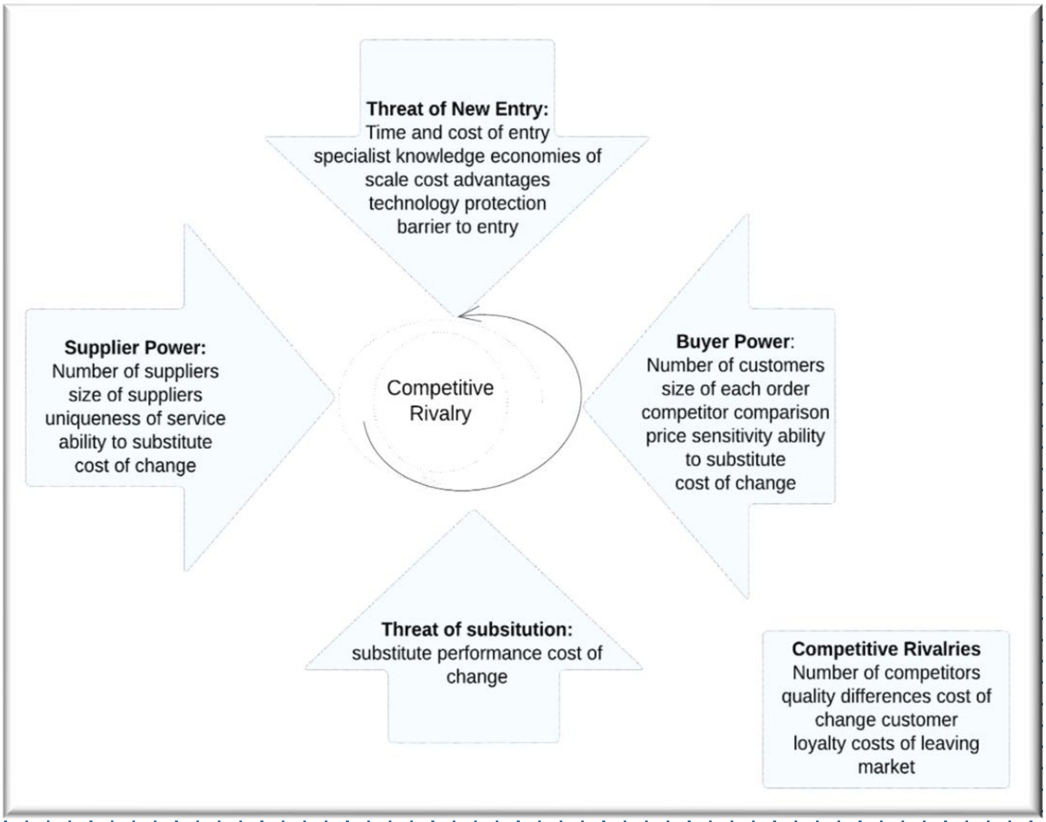
Relationship between two parties has tremendous effect on the negotiations, it enhances the credibility. To strengthen your position in negotiation be prepared and persistent.

- Know your practice
- Know your market
- Know what provides value in your market
- Know your competition
- Know your people

In the JMBlueStart project, IGT intend the integration of Credit functionality along with the payments module. In effect of business continuity plan, the integration has an adverse impact on commissions, collections, logistics modules. IGT's practice is to create value by adherence to the standards ex. ISO/IEC 155402-5:2012 and ISO/IEC 29148: 2011. IGT ensure the recovery of the impact within the tolerance period with this continuous quality improvement is the primary priority. Because of this, IGT exceptionally stands out as an important 3rd party service provider for the retail sector. IGT's consultants are part of associations bringing expertise and the knowledge base necessary to create value. IGT takes into consideration with great detail the necessity of 'to be business process' decomposition to 'As is business process'. IGT's knowledge base in retail industry, the market, the competition, the policies is a part of continuous improvement, without proceeding with this and without taking necessary action towards this we will not serve our client better.

The primary business solution that IGT delivers to client End of the day batch process, the database, IIS manager, CoSaCS application ensures the stock level from merchandise module, the worklist manager from collection manager, sales orders from post sales are tuned across all stores and all 15000 associates. The project will enable IGT to nurture vendors. With the integration of credit and payment module, will create a tremendous opportunity to create value for the client, In form of documentation, gap reduction, standard maintenance, market surveillance etcetera.

In retail industry, the frequency and intensity of reactions undertaken by competitors will tend to result in price wars, employee raids, increase in promotions expenses, decrease in profit potential, so at every major event, how value will be created, how the customers will be heard of, how could their problem be solved, how could they be served should be highest priority action items.



In near future, the market will be dominated with conglomerates this finds unattractive for the entrepreneurs, the corporate office should therefore draft policy in favour of the emerging businesses, bringing value for the local businesses, this will ensure increased cash flow for them and hence for the conglomerates.

To be grateful for loyal group of customers and to nurture the new customers should be the priority because this ensures a greater no. of vendors having control of the merchandise sold in the market and enabling supplier to sell product to retailer at higher prices.

The threat of substitutes, the disparity in bargaining power, threat of new entrants will undoubtedly rupture the competitive rivalry, ensure high entry barrier for the retail market.