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A CONCEPTUAL STUDY ON RETAIL VALUE CHAIN MANAGEMENT

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1. Introduction

The retail environment in India is highly competitive, being the second largest employment provider after agriculture the sector also the second largest untapped market after China. There are some 12 million retail outlets deeply penetrated across the country and contributing to more than ten percent of the country's GDP. Indian retail market is estimated to grow from $427 billion in 2010 and is expected to reach $637 billion by 2015 (Srivastava 2008)[1]. As a part of the government's strategy to gradually open up the retail sector to foreign competition, the 2005 budget has allowed 26 per cent foreign direct investment (FDI) in the sector. The retail arena today is very different — the opportunities are incredible but exploiting them is extremely tough. A successful retail enterprise needs to have a vast network of people and error-free processes in place.

The retail environment today is changing more rapidly than ever before (Dabholkar, 1996)[2]. It is characterized by intensifying competition from both domestic and foreign companies, a spate of mergers and acquisitions, and more sophisticated and demanding customers who have great expectations related to their consumption experiences (Sellers, 1990)[3]. Retailing is the set of activities that markets products or services to final consumers for their own personal or household use. Retailer is a Person or Agent or Agency or Company or Organization who is instrumental in reaching the Goods or Merchandise or Services to the End User or Ultimate Consumer. Retailing makes products and services available on a relatively large scale and supplying them to customers on a relatively small scale. The word "Retail" originates from a French-Italian word 'Retailer' means someone who cuts off or sheds a small piece from something. In 2004, The High Court of Delhi [4] defined the term 'retail' as a sale for final consumption in contrast to a sale for further sale or processing (i.e. wholesale). *A sale to the ultimate consumer.* Thus, retailing can be said to be the interface between the producer and the individual consumer buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as the government and other bulk customers. Retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. A retailer is involved in the act of selling goods to the individual consumer at a margin of profit.

The retail industry is mainly divided into Organised Retailing and Unorganised Retailing [5]. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner manned general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc. The Indian retail sector is highly fragmented with 97 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. The sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP.

The Value Chain, also known as Value Chain Analysis, is a concept from business management that was first described and popularized by Michael Porter in his 1985 best-seller book, Competitive Advantage: Creating and Sustaining Superior Performance. All organisations consist of activities that link together to develop the value of the business, and together these activities form the organisation's value chain. Such activities may include purchasing activities, manufacturing the products, distribution and marketing of the company's products and activities (Lynch, 2003)[6]. The Value Chain framework has been used as a powerful analysis tool for the strategic planning of an organisation for nearly two decades. The aim of the value chain framework is to maximise value creation while minimising costs. The concept of value added, in the form of the value chain, can be utilized to develop an organisation's sustainable competitive advantage in the business arena of the 21st Century.

The Value Chain framework of Porter (1990) [7] is "an interdependent system or network of activities, connected by linkages". When the system is managed carefully, the linkages can be a vital source of competitive advantage (Pathania-Jain, 2001) [8]. The Value Chain analysis essentially entails the linkage of two areas. Firstly, the value chain links the value of the organisations' activities with its main functional parts. Then the assessment of the contribution of each part in the overall added value of the business is made (Lynch, 2003)[9]. The Value Chain describes the full range of activities, which are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use.

2. Need for the Study

Retailing does activities by organizing availability of products and services on a relatively large scale and supplying them to customers on a relatively small scale. Retailing is the most active and attractive sector from the last decade. While the retailing industry itself has been present since ages in our country, it is only in the recent past that it has witnessed so much of dynamism. The emergence of retailing in

India has more to do with the increasing purchasing power of buyers, especially in the post-liberalization era. Increase in product variety and increase in economies of scale with the aid of modern supply and distributions solution gave way for these new trends. Indian retailing today is at an interesting crossroads. The retail sales are at the highest point in history and new technologies are improving retail productivity. Though there are many opportunities to start a new retail business, retailers are facing numerous challenges. The biggest challenge is competition existing in this promising sector. Each retailer coming up with different sales promotion techniques like offers discounts etc. The key is delivering high value to the customer by adopting Value Chain model to the retail businesses. Hence it is proposed to study retail value chain management practices for profits.

3. Objectives of the study

The primary objective of the study is to employ Michal Porter Value Chain model for a retail business and thereby classify retail value chain operations so as to fit into model for better value delivery. The secondary objectives include reviewing the literature on value chain management. The study also throws a light on highlights on retail sector and finally offering recommendations for retailers for better operational and financial performance.

4. Review of Literature: Value Chain Management

Porter has offered a definition of value chain in 1985 in his book "Competitive Advantage". He stated, "The basic tool for diagnosing competitive advantage and finding ways to enhance it is the value chain, which divides a firm into the discrete activities it performs in designing, producing, marketing, and distributing its products" (Porter, 1985, p.26) [10]. "The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation." (Porter, 1985, p.33)

The objective of value systems is to position organizations in the supply chain to achieve the highest levels of customer satisfaction and value while effectively exploiting the competencies of all organizations in the supply chain (Handfield and Nichols, 2002)[11]. Value chain analysis can be a useful analytical tool in understanding the policy environment in terms of efficiency in allocation of resources within the domestic economy while at the same time understanding the manner in which firms and countries are participating in the global economy (Kaplinsky and Morris)[12].

Devi Prasad (2010)[13] recommended that Value Chain practice is not only in organized sectors but also in Unorganized Sectors like Agriculture, Fisheries etc. The Service sector is also adapting Value Chain Practice for better value delivery. Advertising, Social Trends, and Economic Conditions all influence consumer and business valuations of products, services, and resources flowing through the value systems in our economy. The Value is something for which a customer is paying money. Any company must have to deliver value in order to sustain in this competitive market. Value Chain Management is a process of creating a value in each phase right from processing of material, production, marketing, distribution and retailing Devi Prasad (2010)[14]. A Retail Store can offer wide range of product line for its customers but if the products need to be sold, the retail services are secreting success for the store to be as one the leading stores Devi Prasad (2010)[15].

4.1 Basic Model of Value Chain Analysis

Porter suggested that activities within the organization add value to the service and products that the organization produces, and all these activities should be run at optimum level if the organization is to gain any real competitive advantage. If they are run efficiently the value obtained should exceed the costs of running them i.e. customers should return to the organization and transact freely and willingly. Michael Porter suggested that the organization is split into 'primary activities' and 'support activities'.

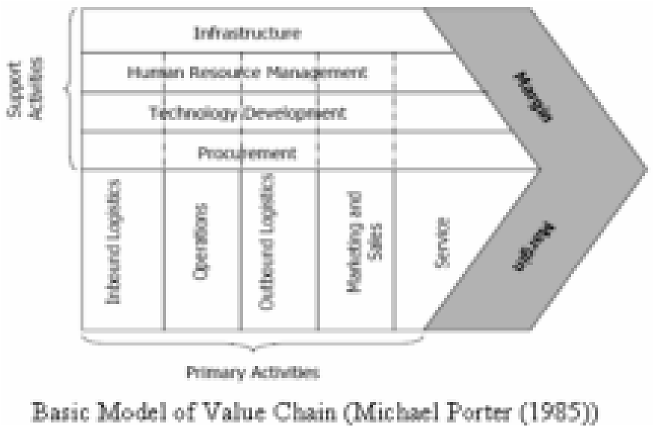

Figure 1: The Generic Value Chain, source: Michael E. Porter (1985, p.37)

These activities can be classified generally as either primary or support activities that all businesses must undertake in some forms. The basic idea is that a firm's activities can be divided into nine generic types, which are linked to each other and to the activities of its suppliers, channels and buyers. Five activities are the primary activities, which are directly concerned with the activities that create the products, market them deliver them and service, each of these primary activities has a linkage with support activities that can be useful to raise their effectiveness or efficiency. Porter (1985) hints the term "Margin" means that firms realize a profit margin that depends on their ability to manage the linkage between all activities in the value chain. In other words, the organization is able to deliver a product / service for which the customer is willing to pay more than the sum of the costs of all activities in the value chain.

4.1.1 Primary Activities

According to Porter (1985, p.39), the primary activities are:

1. *Inbound Logistics* - Relationships with suppliers and include all the activities

required to receive, store, and disseminate inputs.

2. *Operations* - Are all the activities of the manufacture of products and services - the way in which resource inputs (e.g. materials) are converted to outputs (e.g. products)

3. *Outbound Logistics* - Include all the activities required to collect, store, and distribute the output.

4. *Marketing and Sales* - Essentially an information activity -activities inform buyers about products and services induce buyers to purchase them, and facilitate their purchase.

5. *Service* - Includes all the activities required to keep the product or service working effectively for the buyer after it is sold and delivered.

4.1.2 Secondary Activities

Support value activities involved in competing in any industry can be divided into four generic categories. As with primary activities, each category of support activities is divisible into a number of distinct value activities that are specific to a given industry. (Porter, 1985, p.40)

1. *Procurement* - Is the acquisition of inputs, or resources, for the firm.

2. *Human Resource management* - Consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.

3. *Technological Development* - Pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.

4. *Infrastructure* - Serves the company's needs and ties its various parts together, it consists of functions or departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management.

5. Application of Value Chain model in Retailing

Retail Value Chain can be described as a series of retail activities which add value at each stage right from procurement of the product into retail outlet to product delivery to the customer. The retail value chain activities can also be divided into primary activities and secondary activities.

5.1 Primary Activities of Retail Value Chain

Five activities are the primary activities (Inbound logistics, Operations, Outbound logistics, Marketing and Sales, finally Service), which are directly concerned with the activities that procure the products, market them deliver them and service.

5.1.1. Inbound Logistics - Relationships with different product vendors/manufacturers and include all the activities required to receive, store, and disseminate inputs. Recommendations for the retail manger as follows.

> Effective merchandise management i.e. availability of the right product in right quantity.

> Effective category management i.e. offering wide variety of choice for the customer under each product category.

> Effective stock management, stock-in, stock-out, management of stock with decreased warehouse cost.

5.1.2. Operations – Retail operations which actually offer value to the customers apart from the products. Suggestions to retail managers for effective retail operations as follows.

> Arrangement of billing counters in required number so that there will not be any waiting for billing.

> Providing information about the products to the customers by retail sales force.

> Announcing current offers in the retail outlet.

> Attending customer complaints.

> Post purchase services.

> Processing guaranties and warranties.

5.1.3. Outbound Logistics - Include all the activities required to collect, store, and distribute the merchandise.

> Providing paid/free door delivery service.

> Quality in delivery of purchased goods to the customer without missing/ displacing any item

> Feedback from the customers after experiencing the shopping.

5.1.4. Marketing and Sales - Essentially an information activity -activities inform buyers about products and services induce buyers to purchase them, and facilitate their purchase.

> Promotion of the retail out in nearby society.

> Advertising about location of the store.

> Advertising about current offers available in the outlet.

> Advertising about available wide variety of merchandise in the store.
> Sales through Telemarketing, online shopping, catalogue etc.
> Effective customer relationship management, customer retention.
> Customer satisfaction with greater value delivery.
> Effective Point of Purchase(POP) communication.

5.1.5. Service - Retail service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation.

Pre-purchase Services

> Convenient Shopping hours
> Advertisement of Offers
> Attractive Interior Display
> Fashion shows
> Telemarketing Services
> Trade-ins
> Window display of new ones
> Mail order delivery
> Trail / Fitting rooms

Post-purchase Services

> Exchanges, Adjustments
> Guarantees & Warranties
> Door Delivery
> Shipment
> Tailoring, Alterations
> Installations
> Engraving
> Returns
> Gift wrapping

Ancillary Services

> Providing Information

> Repairs & Service
> Credit Facility
> Free parking
> Providing Rest rooms
> Baby care services
> Food courts in premises
> Plastic Money
> Interior decorating

5.2 Secondary Activities

Support value activities involved in competing in any industry can be divided into four generic categories. As with primary activities, each category of support activities is divisible into a number of distinct value activities that are specific to a given industry. (Porter, 1985, p.40)

5.2.1. Procurement - Is the acquisition of inputs, or resources, for the firm.

> Procurement of Right merchandise means right product, right place, right quantity, right quality, right price, and right time in right condition.
> Sales forecasting for the retail outlet.
> Economic Order Quantity to reduce warehouse cost.
> Effective order processing and order management.

5.2.2. Human Resource management - Consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.

> Choosing a suitable organisation structure for the retail outlet.
> Effective job analysis, creation of jobs, assigning jobs and positions to organisation structure.
> Role clarity, reporting and accountable authorities.
> Effective recruitment strategy and compensation management.
> Organising time-to-time training programmes for employees.
> Transparent performance management system.
> Proper career planning and development for employees.

5.2.3. Technological Development - Pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.

> Use of Information Technology for billing, maintenance of financial records.

> Use of Communication Technology for customer as well as employee communication.

> Use of machinery and equipment like metal detectors, storage facilities etc.

4. Infrastructure – infrastructure facilities required by a retail out let to serve its customers as well as employees.

> Suitable retail layout and design.

> Air conditioned outlet.

> Parking facility.

> Accessibility to main road with less possible traffic.

> Transportation facilities, door deliveries.

> Safety measures like Fire extensions, additional stair cases etc

> Availability of Trellis, wheel chairs etc for shopping convenience.

> Availability of required machinery, equipment.

The retailing sector consists of both tangible and intangible factors while assessing the service quality and measuring service quality in retailing is different from any other sector or segment. Retail stores belong to service industry, which offer a hybrid of goods and service, thus retail product management not only have the common characters of goods quality but also have the special characters of services quality. The biggest challenge for the retailers is competition from both existing players and new entrants in this sector. Each retailer is coming up with different sales promotion techniques to attract customers. The key for attracting and retaining customers is delivering high value to the customer by adopting Value Chain model to the retail businesses. Hence it is strongly recommended to adopt value chain management practices in retail outlet for profit maximization and cost minimization.

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