

## Introduction

Retail is the business of selling goods made by others to individual consumers. It is a huge industry, dominated by Wal-Mart, which touches every corner of the globe. Due to the decline in the global economy, the future of many retailers is uncertain as consumers begin to spend less.



## Industry Composition

The retail industry is the last step in the process of getting products to customers efficiently, and should not be confused with the wholesale activities which precede it. The difference between the two is that wholesalers are companies that sell their products to businesses, whereas in retail, the goods are sold directly to the consumer. Wholesale establishments play an important role for retail establishments, as they generally provide retailers with the resources they need to run their business in addition to the goods and products they sell.

Any business that sells goods to individual consumers is a retail establishment. There are many kinds of retail establishments:

- Department stores: a large retail store organized into departments offering a variety of merchandise and often forms the cornerstone of a mall, such as J.C. Penney's
- Discount stores: mass-merchandisers or membership warehouses, such as Costco
- Category killers: large stores that specialize in one type of merchandise, such as Home Depot
- E-tailers: sell goods online, such as Amazon
- Specialty stores: concentrate on one product type and sell it in a way that makes it unique, such as The Body Shop
- Grocery stores: provide food and beverage, such as Kroger and Jumbo
- Convenience stores: include gas stations and corner stores

Retail establishments are a huge industry with \$4 trillion of revenue in the U.S. alone. There are many different retail sectors: motor vehicles and parts, which involves the sale of

## Industry Leaders and Fragmentation

\* All amounts are given in Billions USD

Company	Country	Sales	Profits	Market Value
Wal-Mart Stores	161	485.3	13.6	221.1
Amazon.com	161	136	2.4	427
Costco Wholesale	161	121.2	2.4	74.9
Walgreens Boots Alliance	161	116.1	4.2	89
Kroger	161	115.3	1.9	27.3



## Profitability and Demand Drivers

### Primary Demand Drivers:

- Personal income
- Consumer confidence
- Interest rates

### Profitability Drivers:

- Efficient supply chain management
- Effective merchandising and marketing

## Trends

The industry has recently seen a rise in the use of consumer resource management (CRM) and radio frequency identification (RFID). With CRM, companies can use the data collected about their customers to suggest other products that might interest them. RFID allows a company to precisely track their inventory, knowing when more of something is needed as well as how much, thus making supply chain management more efficient. This is done by placing a small chip on the packaging of the item itself.

Another recent trend is lifestyle retailing, in which stores will sell both apparel and household items of the same style, i.e. Urban Outfitters. Ecologically friendly products are also an emerging trend as sustainable practices are applied, and are environmentally friendly, energy efficient, or "green" in other ways. Lastly, self-checkout in large stores is also on the rise, reducing the need for labor.

Due to the recent economic downturn, consumers have become more price conscious. This has created an environment in which discount retailers have become the stores to prosper. Additionally, in many department stores, private labels (i.e. store brands) have started exploding with sales growth. So much so, name brand companies such as Heinz have signed contracts with department stores to bottle the private labels. The explosion in sales is mainly due to the similar quality at a much better price. Another major trend has been the comeback of coupons. The price conscious consumer wants to know they are getting the best deal around, and this is the simplest route to appease their desire.

The last major trend in this area has been the move towards direct retailing. Direct retailing is the process of advertising and selling a product directly to a customer. The most identifiable version of this is with infomercials. However, the largest segment by far of this industry is E-commerce, or online shopping. Online shopping has boomed in the last few years with online juggernauts like Amazon taking a large portion of the pie. Between the specific advertising generated by companies such as Google and the lower prices online retailers are able to offer, brick and mortar retailers are having a hard time competing. Additionally, with cell phone applications allowing consumers to walk into a store, scan a barcode and then buy the product online at a lower price, this trend is developing at an ever increasing rate.

new and used cars and comprises 25% of sales in this industry; specialty stores that make up 19% of sales; general merchandise as well as food and beverage, each of which composes 15% of sales; convenience stores that account for 10%; and building material and non-store retailers; each comprises 8% of the sales for the industry.