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## THE RETAIL COMPANY BETWEEN CHALLENGES AND PROSPECTS

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**Abstract:**

*All things are about to change. World economic crisis of 2008-2009 exposed the deficiencies and imbalances within all the global economic system. When overvalued property prices collapsed, international financial institutions have suffered heavy casualties. Loss of investor confidence led to the closure of almost all global credit markets, while indebted consumers were forced to dramatically change consumer and buying behavior. Recession is running out and recovery can be seen at the horizon, but one thing is certain, consumer behavior over the last decade will not return too soon. The ceaseless changes of position in retail have forced retailers to be in a constant battle for maintaining the best position. The costumers are extremely whimsical, and their fidelity is lessened. They are drawn to the latest sensation. In order to stay in the competition, retailers have to keep in mind some aspects: competition, consumers, technology and own actions.*

**Keywords:** *modern retail, traditional retail, retail change, consumer behavior*

We have all seen the development of trade in the last decades and we will not submit it to a thorough analysis in this article, but we will especially refer to the challenges that retail is facing. A first implication is the fast changes within industry. The ceaseless changes of position in retail have forced retailers to be in a constant battle for maintaining the best position. We know that the industry is characterized as being innovator and varied. These are the characteristics that draw the consumer to and make him eager to buy. Because of the rate of in which the changes occur, there is a fair chance that a retailer abandoned the competition. Afterwards, it will not be easy at all to regain his position. The costumers are extremely whimsical, and their fidelity is lessened. They are drawn to the latest sensation. In order to stay in the competition, retailers have to keep in mind some aspects: competition, consumers, technology and own actions.

The retail industry has been the biggest technology user in recent years. The American retail industry spends on technology over 2.1 % of annual sales, compared to 1.8% in 2001. The activities in stores are becoming more client-oriented. The improvement in supply chain currently allows fast shelf replenishment. The data exchange in real time between the supplier and trade men lead to themselves being

informed of the buying habits. The technological development will strongly increase in the following years. Moreover, e-tail has thrived in recent years. Shopping websites have improved. Many retailers make public on their websites every size and shade of their own products, because they are too many to be kept solely in stores. Thus, the websites are visited by customers that otherwise would hardly have direct access their products. Lately, on-line quarterly sales in USA have increased by 25%, according to a governmental estimation, and there will not be a trend of decreasing in the future years.

Traditional trade is undergoing some changes as well. The distortion of the channels can be noticed especially in the USA, where a lot of products can be purchased from numerous types of stores. This trend can be observed especially in the food sector and for the products necessary in offices.

While retail continues to evolve, a lot of stores meet with difficulties. In Europe, hypermarkets face a bitter competition from smaller stores like supermarkets and hard discount stores. Music stores have registered a decrease in sales because consumers prefer to download music from the Internet. Tradesmen confront themselves with new competition from manufacturers that open their own stores.

The constant changes concerning consumption habits, lifestyles, keep retailers in permanent alert. Currently, the preference for substantial sales explains the development of “one dollar” stores in the USA. A lot of retailers accept the trend, offering in their stores aisles with substantial sales.

Successful retailers evolve and adapt their strategies in order to cope with the fast changes in this field. While the concepts of traditional retail are on the wane, the principles of this industry remain. Thus, retailer must progress, and at the same time they have to focus on the brands and what is really important to their customers.

Currently, differentiation surpasses position. In a world with too many stores, too much merchandise, price sensibility and ultra-competitiveness, differentiation becomes the most important factor of success on the market. While trade has never been associated only with price, in present, this matter is even more irrelevant. It does not suffice to compete only in terms of price because other tradesman would undoubtedly find a way to lower prices even more. Retailers that do not manage to have loyal customers will soon notice the migration to more attractive stores.

For the customers, what is worth can have many meanings. It includes attributes that can be difficultly quantized. Customers want trade to include: innovation, fun, quality services and improvement of life. To more and more customers, today's retail does not necessarily mean “product”, but “experience”. A lot of consumers want to establish an emotional connection with the retailer. Some studies show that brands are not part of the culture, but they *are* culture. Brands fulfill an important role in society: they have become the tools with which consumers build their own personalities and social identities.

Luxury retailers understand this matter better than any other segments. In addition, the consumer's need to pamper himself explains the blast of trade that offers

“prestige”. Middle class customers often pay more for luxury products, but at the same time save money in other places.

The brand is a differentiation that leads to success. Creating a powerful brand firstly involves defining the brand’s strategy and only afterwards aligning it the company’s goals and to the entire practice of the organization. The actual creation of the brand is tightly tied to establishing relationships, consistency and trust. The creation of a successful brand is also made from analyzing the consumers’ wishes. The information about consumption habits offers valuable insight that is important to the brand’s creation.

A strong brand offers the customer a more valuable experience that also requires the flawless implementation of the store’s initiatives. Consumers can be drawn near to loyalty cards and the offering a suitable range of products and services. To some, this means expanding the brand beyond the own store, that is to say, tradesmen of toys open their own stores within supermarkets, catering firms open branches directly within banks.

Once the brand’s reputation has been settled, it is also important to maintain it. The retail world offers countless examples of bankruptcies of some companies that could not keep their promises to the consumers. A brand that lingers in the consumer’s mind benefits not only the retailer, who gains profit, but also the consumer, who gains experience.

The multitude of choices for places to buy means the battle of every retailer to obtain a place in the consumer’s wallet. Meeting with the client’s demands and a process of efficient provision are crucial in offering the customer a unique experience. The traditional way of positioning the product in the center of thinking, was replaced by the approach that builds everything round the client. Retailers must offer products and services based on the consumers’ expectations. Technology can be a wonderful tool in this aspect, but it is not the only way in which the shopping experience can be improved. The offer of simple services, friendly, but ingenious at the same time, often proves to be one of the most efficient ways of gaining the buyer’s fidelity. Furthermore, retailers learn to draw and gain the fidelity of their clients through communication programs, direct marketing, loyalty programs and magazines for buyers.

A shopping experience can unfold on several levels. Consumer concentrated retail involves maximizing merchandising options. This process mainly helps with the exact planning of sales within the period of season sales. Also, it allows developing a marketing campaign with a more precise target. Therefore, this experience requires a good relationship with the suppliers, it requires the presentation to all consumers, from those on the Web, to those from stores, and it requires a vice-free brand. And, very important, it should involve thorough analysis, in permanent unfolding, concerning the consumers’ buying habits.

A more accurate segmentation of consumers helps retailers to fulfill their targets. With the help of competitive technological solutions, retailers can process data about consumers so that they can increase notoriety in consumers’ mind, but also to offer them the products and sales promotion truly relevant to them. This information

enables retailers to make strategic decisions and to produce better sales, and, consequently, better results during the process. The thorough analysis of information may uncover new trends and behaviors that otherwise could be unnoticed. Thus, the retailer can respond quickly to these trends, offering the consumer exactly what he needs.

All things are about to change. World economic crisis of 2008-2009 exposed the deficiencies and imbalances within all the global economic system. When overvalued property prices collapsed, international financial institutions have suffered heavy casualties. Loss of investor confidence led to the closure of almost all global credit markets, while indebted consumers were forced to dramatically change consumer and buying behavior. Recession is running out and recovery can be seen at the horizon, but one thing is certain, consumer behavior over the last decade will not return too soon.

Obviously, the unfavorable macroeconomic evolution has significant effects on the general consumer attitude and behavior. That's means: less frequent shopping and less going out; less driving in order to save fuel costs, reduced shopping in alcohol, coffee and services: beauty salons, house cleaning; increased importance of brand loyalty in categories of high personal care; down trading from up products to cheaper ones: lower-price brand products and private labels; shopping sale-items, use of coupons and loyalty cards, delay of planned purchases, mostly of non-food items.

As expected, the global recession has changed consumer behavior. They became more attentive to the price/quality proportions, more willing to try private brands, and they have quit buying products from the "small pleasures" category and going out. Luxury goods category was one of the most affected lately. But as the economy returns to growth and luxury goods market will animate, the final ratio between supply and demand will be quite different from the pre-recession landscape.

Any serious discussion about the future of the retail industry must also contain a substantial analysis on emerging countries. These markets will play a more important future role in the dynamics of the global economy, but nevertheless, most discussions on this topic were focused on the opportunities for major retailers. But what will happen to local retailers in these countries? Although it may seem surprising, they are the ones who will have the most to gain at the expense of the few international retailers who have the courage to invest in those emerging markets.

Therefore no wonder that many retailers already a tradition in these countries will adapt quickly to the competitive environment, thus becoming feared competitors. Not only are well prepared for a fight with major retailers "in their home", but some of them even manage with dexterity to expand, turning into true regional leaders. We assist to such situations in regions such as Asia, Africa, Middle East or South America.

Most of retailers have a too large product range offer. This is a specific symptom of poor communication between purchasing department and the company's ability to understand consumers in general. To this is there is added the inability to realize the life cycle of a product or brand. Retailers often think that a large number of brands in the store itself is a selling argument. But in the future, retailers will find more

effective to communicate how many brands were eliminated from the portfolio restructuring, transmitting thus the message of more attention towards customer needs. Strengthening customer loyalty will be increasingly based more on a further demonstration that retailers understand the preferences and lifestyle of the customers, and that they can anticipate changes.

Regarding the European retail sector, limitation of investments that the large companies have set themselves was an obstacle in front of growth in recent quarters; however purchasing power has remained at a fairly high level, despite forecasts released by analysts at the beginning of the crisis. Various incentives offered by governments have also had their contribution. On the other hand, there are now fears that the euro area population to limit costs, being given the fact that the unemployment rate is rising.

However, the impact may be overestimated, since decrease of revenues is partially reduced by state financial support, which can reach up to two-thirds of income and may be granted for one year or more, depending on the case. In addition, the savings rate among countries in the euro area is about 15% and can operate as a damper under the pressure of the growing number of unemployed. Altogether, since the retail sector has not suffered as much as other industries from the recession, it will not register a spectacular growth rate during this period of global economic rebound.

For the global retailers and their suppliers the next decade will bring radical change to business generally. Not only will the purchasing power pole migrate from geographically, but also the nature of buying and consumer behavior will change. In areas such as USA and UK, spending allocated to consumer goods will not only be smaller but will be guided by the needs of new consumers who seek value-added products, while recent migration to discount stores triggered by recession will tend to be active in the future.

Euromonitor International considers for 2008/2009 the winners as: grocery retailers and Internet retailers and the losers: electronics and appliance specialist retailers and leveraged retailers. In the same time Euromonitor International mentions the winners and losers for the past crisis: hypermarkets, supermarkets, discounters and Internet retailing winning and home and traditional retailers, electronics and appliance retailers, clothing and footwear retailers, leisure and personal goods retailers and home and garden retailers losing.

In the case of Romania, the crisis causes stress, fear, lifestyle degradation among consumers. In this context, consumers' behavior, especially that of middle class and poor ones, is changing, the following trends being noticed:

- orientation towards savings (bank deposits with favorable interest) and relinquishment of loans because of their big interest and difficult accessibility;
- giving up luxury products (cars, furniture, expensive cosmetics, expensive clothes, indispensable electronics) and mending the defect goods or orientation towards second-hand purchase;
- orientation towards traditional markets (because of the psychological influence of the high cost of shopping carts from big stores) and towards imperative

needs: food, detergents, hygiene products, series cosmetics, clothes from “sales and promotions”, absolutely necessary household electronics;

- orientation towards the best price – quality ratio, nevertheless, consumers want the quality that guarantees health;
- renouncing of holidays going out and to restaurants, and other services that are not imperative (the Internet).

Here are the trends among consumers’ behavior in stores:

- manifestation of the DOWN TRADING phenomenon ( migration from the mainstream segment to the economic one); orientation towards the brands of big stores;
- preference for local products (perceived as cheaper than imports, more natural, but also for the uphold of Romanian industry);
- caution in the process of purchasing and following a shopping list;
- looking for the products one needs at promotions , interest for promotional catalogues and for receiving gifts;
- decrease of frequency of buying and consuming (for the time being, not very much) and preference for the concept “everything under the same roof”.

Consumers’ expectations in the context of the crisis:

- creativity from retailers and producers, who should help to preserve lifestyle and consuming styles with which they are used to;
- quality at a minimum acceptable standard (which should not peril their health) and the best price-quality ratio;
- permanent presents of the wanted products on shelves.

Because of the crisis, within the big stores, innovative ideas have a positive and immediate effect on sale increase if they guarantee their clients they maintain their usual lifestyle and the possibility of saving some money.

Consumers want their new needs to be satisfied, created because of the crisis, and producers must adapt to the new demands. Big stores facilitate producers’ work and support their efforts by optimizing the offer.

For Romania, the crisis involves both risks and opportunities for all the functional divisions of the retail companies. On risks, we mention: purchasing - increased out-of-stock due to possible supplier financial distress; facility management - real estate developers’ crisis is to slow down expansion in retail parks; logistics – slower processes due to possible supplier financial distress; financial management - increased financial costs and credit and also consumer credit losses from loan defaulting; marketing - low price focus, increased need for promotions to support sales, buying power decrease; human resources – decreasing motivation on the back of rising unemployment spectrum. The opportunities are: decreasing rents; lower expansion costs from decreasing land prices; decreasing energy cost; reduced transportation costs; renegotiation of marketing costs; labor market becomes employer driven etc.

New challenges will not cease to appear through innovation perspectives. Carrefour wants to open more drive-in locations in France, starting with the second half of the next year. The company has two expansion strategies, the first one involving the opening of 10 stores next year, aiming to reach 100 in late 2013. In parallel, they will build five small independent stores, with the intention of their number to reach 70 by 2013. For both concepts, customers can order online products that they can take home from drive-in later on.

In such a context, this requires more active regulations aiming the retail sector. CE wants to be more involved in monitoring prices of retailers and suppliers in order to use up resources to increase price transparency policy, suggesting that these online resources to be used by Member States. Measures could be proposed to discourage speculation and volatility in the agriculture segment. CE wants to examine the labeling of products in terms of origin of ingredients and their environmental impact, and to look in detail issues of territory and local products provided. The EU study comes from the French government's decision to warn the new big retailers, including six supermarket chains, which will be questioned regarding abuses made in contracts with suppliers. Some problems include retailers decision to force vendors to buy back unsold products on the shelves at full price or pay the cost of stock depreciation.

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