How Thai Retailers Will Survive in this Era

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ABSTRACT

The retail sector has a critically important role in Thai economics. Traditional Thai retailers face problems with modern trade coming into the market and need solutions as to how to continue in business. This article has explained the definition of retail business, the theory of retail business management, consumer behavior theory, and inventory management theory. The results of these analyses are as a part of the designing strategies for creating a competitive advantage for Thai entrepreneurs in the retail sector.

Key word : Thai Retailers/ Survive / Era

Introduction

Consumption of goods and services is at the heart of retailing. The value proposition retailers offer to consumers is critical for success. To be competitive, a retailer must create a superior customer experience by differentiating itself from their competitors (Grewal, Levy, and Kumar, 2009). Retailing plays an important role in the Thai economy. Table 1 shows that the retail sector has the second largest number of traditional small and medium enterprises. However nowadays, traditional trade or retail businesses face many obstacles and constraints. One is the coming of modern chains from abroad into the Thai retail market. Therefore, this article will present the obstacles that traditional retailing faces in the present and suggest a method to resolve these issues through current research and analysis. As result, traditional retailers will be the better able understand how to deal with changing conditions.

Table 1: Number of small and medium enterprises: Classified by Business Sectors (At the end 2012)

Business Sectors	SE	ME	SME	LE	N/A	Total
Retail Sector	812,064	1,759	813,823	1,739	0	815,562
Wholesale Sector	223,555	1,066	224,621	819	0	225,440
Maintenance Sector	154,278	316	154,594	92	0	154,686
Service Sector	1,029,884	5,205	1,035,089	2,116	6	1,037,211
Manufacture Sector	505,121	5,894	511,015	2,825	14	513,854
Unknown	0	0	0	0	35,192	35,192
Total	2,724,902	14,240	2,739,142	7,591	35,212	2,781,945

Source: Institute of Small and Medium Enterprises Development, 2012

Definition of Retail Business Levy et al. (2007) defined retailing as a set of business activities in which products or services are sold to the end user for personal or family use. And a retailer is a business that sells products or services to the end user for their personal or family use.

Retail business is divided into two types: **Traditional Trade means** businesses that look like small shops or bazaars. Store decorations are not up to date, including no standard store operation management. Shop managers are often family members or acquaintances.

Modern Trade means stores that have systematic and standardized management. Businesses may be established through a joint venture with foreign organizations. Modern retail businesses include: department stores, specialty stores, category killers, supermarkets, hypermarkets, off-price stores, and convenience stores.

Retail stores can be broadly classified into two categories: **Store retailing** is a place of business operated by a retailer in which merchandise is sold primarily to ultimate consumers.

Non-store retailing is selling products that customers do not need to come directly to the store to purchase. Customers can order from other

channels such as vending machines, direct sales, direct marketing, social media, etc.

Current Problems in Traditional Thai Retail Business Retail competition is more severe from foreign investors that are increasingly investing in the Thai business. If Thai retailers do not adjust, they likely will go out of business. The main factors that retailers face in operation management are:

Changes in Customer Behavior – in recent years, customer satisfaction has been influenced by several factors including location, service quality, risk, shopping enjoyment, and value for money (Suppara Charoenpoom, 2011).. However, traditional retailers have not satisfy current consumers because their stores have unorganized product placement (Montree piriyaku and boonthawan Wingwon 2011; Pavinee Karnjanapa, 2011), old products that are often more expensive than in modern trade, no labeled prices, and no parking (Pairaya Juwattanasamran, 2005).

Changes in Technology – Technology now plays very important role in increasing revenues because customers like to purchase online which lowers cost by reducing open physical stores (J and Hristina,2017). Changing consumers' purchasing habits means entrepreneurs must be prepared and create

methods to improve competitive advantage (Grewalet et al 2009).

Inefficient Store Management –Thai traditional stores often have ineffective accounting management systems, order planning, or inventory management because the they have no experience in modern shop management. They just run the businesses by their own experiences with trial and error (Kanaporn Kummoon, 2012;Krit Tapjuta, 2015).

Solution for Thai Traditional Retail Business Traditional retailers must be concerned with two important issues: 1) understanding the behavior or needs of consumers and 2) inventory management. These two issues are related; if the retail business does not understand the changing consumer behavior, it cannot manage the business efficiently. For example, ordering a product that is not needed by the market or order more than necessary is not only in efficient, but it shows that the retail business does not understand consumer behavior, nor does it have d knowledge of inventory management. These two issues are required to survive in this industry. Therefore, this article presents a related theory: Levy et al. (2007) stated that the retailers must understand the marketing strategy used in retail business management including the 6Ps as shown in figure 1 Theory of Retail Business Manageme

Figure 1: Drawn from Levy, Michael and Weitz, B,A.(2007). Retail Management. 6th ed. Boston:McGraw-Hill

The Product is what goods the seller determines to buy for sale. Will the selection of products to sell be diverse? It depends on many factors such as the expertise of the seller, location of the store, characteristics of the owner, etc.

Price is the pricing that the seller sets for products. The price is very important for consumers to make a purchasing decision. Place is the location of the store, including where the products are distributed geographically and within the store where the consumers find the products and pay for them.

Promotion is the advertising, sales promotion, and salespeople that let customers know the business or product is available.

People need to be organized and managed in a retail store to fulfill many duties such as customer service,

Presentation is the atmosphere around the shop such as a product arrangement that is eye-catching to customers and will stimulate purchase decisions of customers, as well as to doing activities for promoting the products. Consumer Behavior Theory

Schiffman and Kanuk (2007) defined consumer behavior as the behavior that consumers have when searching for, purchasing, using, and evaluating the products or services that respond to their needs. Kotler (1997) also offered a consumer behavior model by analyzing the behavior of customers by asking them seven questions to gather information on customer behavior. This was described as the 6Ws and 1H. The details are as follows:

.   – Who is in the target market? Customers are targeted using four approaches: 1)

demography, 2) geography, 3) psychology, and 4) behavior.

– What does the consumer buy? This is a question about what consumers want to buy. It also includes what customers want to get from a product, including its features, benefits, and the difference from its competitors.

– Why does the consumer buy? Businesses must study factors that influence consumer purchasing behavior from three perspectives: 1) internal or psychological factors, 2) social and cultural factors, and 3) personal factors.

– Who participates in the buying? What role does the purchaser play in the process: 1) innovator, 2) influencer, 3) decision maker, 4) buyer, or 5) user?

–When does the consumer buy? Which month of the year, any day of the month, and what time of day and why?

–Where does the consumer buy? Where do consumers purchase products and services such as department stores, convenience stores, etc?

–How does the consumer buy? What are the steps to making a purchase? This process involves problem recognition, information search, and evaluation of the alternatives, purchase decisions, and post–purchase behavior.

Inventory Management Theory

William and Sum (2014) stated that inventory is the merchandises that are purchased for sale. Merchandise inventory means the raw material, component, and parts. It is an important duty of the entrepreneur or business owner to manage merchandise inventory. Inventory must be kept at an appropriate level, not too much or too little, because storing inventory can affect the liquidity of the business.

Problems in retail merchandising inventory If the inventory is overstock, it could be a problem for the business. High storage costs, insurance costs to prevent damage during storage, expired, outdated and lost goods are all problems. Furthermore, it is a loss if the store has more stock than demand for the stock.

On the other hand, if the business has insufficient product or is under–stocked, it will cause a business to lose the opportunity to sell to customers, and may, in the end, lose customers.

Inventory Management is the tool that a company uses for managing the movement and storage of merchandise. The inventory management process starts from the collecting and recording the number of incoming and outgoing goods, and assures that the inventory is in the right amounts and is in an orderly condition.

The Objective of the Inventory Management Process Avoid Stock Outs: the

retailers must make sure that the merchandise is available in the stores if customers need or want it.

Avoid Excess Inventory: the retailers can control the balance of stock to make sure there is not too much nor too little.

Move Goods Efficiently: the retailers can receive and store merchandise quickly as it comes in and ship it when required by checking the schedule sending merchandise in and out.

Maximize Profit Margins: well-managed inventory control is a key to maximizing profit margins because it minimizes expenses such as carrying costs and lost products that cannot be sold. Entrepreneurs usually are concerned with three basic principles for managing and controlling the inventory system.

1 Economic Order Quantity (EOQ) is the number of units that a company should order for adding the products into the inventory system. Each order will minimize the total inventory cost such as holding costs, ordering costs and shortage costs. It would probably be a valuable tool for owners of small business who want to make the decisions about how much inventory to keep on stock/hand, how many units to order each time, and how often to reorder with suppliers to incur the lowest possible costs.

Formula

$$EOQ = Q = \sqrt{2DS/H}$$

D = annual demand

S = ordering cost

H = holding cost

Example: A local tire shop in Alexandria, VA expects to sell approximately 9,600 steel-belted radial tires of the same size and design next year. Annual carrying cost is $16 per tire and ordering cost $75. What is the Economic Order Quantity (EOQ)?

Solution

Demand = 9,600 tires

Carrying cost = $16

Ordering cost = $75

$$EOQ = Q = \sqrt{2DS/H}$$

$$= \sqrt{2 * 9600 * 75/16}$$

$$= 300$$

The economic order quantity is 300 radial tires.

2. Safety Stock: Stock that is held in excess of expected demand due to variable demand and/or lead time. To reduce the chance of stock being out, it becomes necessary to carry safety stock in the inventory system. As the amount of safety stock carried increases, the risk

of stock out decreases. This also improves customer service levels.

3. <u>Reorder point</u> (ROP): When the quantity on hand of an item drops to a certain amount, it is time for the store to reorder the item from suppliers.

Formula

d = demand

LT = lead time

ROP = d*LT

<u>Example</u> Mr. Trump takes three a day vitamins, which are delivered to his apartment by a route man seven days after an order is called in. At what point should Mr. Trump reorder?

<u>Solution</u>   Demand = 3 vitamins a day

Lead time = 7 days

ROP = d*LT = 3x 7 = 21

Mr. Trump should reorder when 21 vitamin tablets are left.

Conclusion

This study discusses the transformation of retail business. As urban society modernizes, Thai retailers have to adjust and continuously develop their stores because of changing consumer behavior and technology. Therefore, this article can be used by entrepreneurs or marketers in Thai retailing to develop effective marketing strategies and operations by focusing on retail marketing mix, consumer behavior changes, and operation management standards for retail business in order to compete.

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