

## GLOBALIZATION TRENDS AND RETAIL

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### **Abstract**

*Globalization is continuing process, which could not be ignored by every country in this world where the globalization trends has big impact towards socialization and retail industry. Retailers will not only be looking for growth in emerging markets, they will also look to innovate in multi-channel strategies, mobile and data analytics to maintain or grow their market shares in developed markets. The need for the study arises as consumers become savvier, they are increasingly taking charge of their shopping experience, identifying and leveraging many different sources of information and channels to optimize the different elements of their shopping journey. As the technology is bringing radical changes to how people shop, the physical store, however, is no longer the final shopping destination; increasingly, it is becoming a piece in a larger, more connected customer experience. The study is done to understand how this transition affects retailers thinking to innovate and re-think their operating models in different ways to go along with globalization trends.*

*The research is based on structured inquiry of various retail giants, systematic observations and interpretation of available secondary data.*

**Key words:** *Globalization, Retail, E-Commerce, Trends.*

### **I. Introduction**

At the economic level, the term “globalization” can be used to describe a process that leads to an intensification of international economic relations as natural and man-made barriers fall. The globalization process developed particular momentum in the early 1990s. It is not only characterized by declining transportation costs and tariffs, but was also given a substantial boost by the integration of China, India and the economies of Central and Eastern Europe into the world economy. This has resulted in a much greater abundance of labor for companies that are active on the global stage.

### **II. History of Globalization**

Globalization is the process by which nations become increasingly integrated. This is occurring primarily due to advances in technology that have enabled people, goods, money, data and ideas to travel the world much faster than before; and the reduction of trade and economic barriers, which has greatly increased trade between countries.

Globalization is not new. Historically, people have left their surroundings and traveled to distant lands for four main reasons: conquest (the desire to control other countries); prosperity (the search for a better life); exploration (the desire to discover new lands); and trade (the desire to sell goods profitably). The primary agents of globalization in the past were soldiers, sailors, traders and explorers.

For thousands of years, traders carried their goods across oceans and continents and armies launched invasions on their rulers’ orders. Powerful nations have brought new lands under their authority, integrating disparate nations, peoples and cultures into empires.

Earlier forms of globalization existed in the Egyptian, Medo-Persian, Babylonian, and Greek and Roman empires. During the time of the Mongol empire in the middle Ages, the famed “Silk Road” connected Central Asia and Europe, linking several civilizations.

The first steps toward globalizing as we know it today were taken in the 16th and 17th centuries when the Portuguese and Spanish empires spread into Africa, the Americas and Asia seeking gold, silver and spices. The Dutch, French and British empires soon followed, with the Dutch East India Company becoming the world's first multinational privately-held company, in which ownership was divided into shares. This first wave of globalization was characterized by rapid growth in trade and investment between the European powers and their colonies, including the American colonies.

The first era of globalization began to break down with the advent of the First World War, and later collapsed between the two world wars, in part due to the raising of tariffs and increased immigration restrictions.

### **III. Why go Global?**

Retailers go global for a number of reasons. European retailers are more prone to globalization than American retailers because they often face restrictions on development in their domestic markets. French hypermarkets come to mind. Due to regulations, they cannot easily open new stores in their home market. Consequently, they primarily seek growth elsewhere. This is why the lion's share of global retailers are based in Europe. Some retailers invest globally in order to latch on to fast-growing consumer markets, especially when their home markets are stagnant -- like Germany and Japan. Retailers expand globally in order to leverage their existing assets: global purchasing relationships, a global supply chain, a unique product, a unique format or a well-known brand. Finally, some retailers globalize because foreign markets offer them low-hanging fruit -- that is, foreign retailers can bring leading-edge practices to relatively unsophisticated markets. In doing so, they might blow away the competition (or at least that is their hope). Right now, U.S. retailers are expressing increasing interest in going global. That is because they face a relatively slow growing market, a relatively leveraged and now frugal consumer and increasing market saturation. Investing outside the United States is seen as a good way to maintain rapid growth. Moreover, the preponderance of global consumer spending growth is shifting away from the United States and toward big emerging markets.

### **IV. Globalization in Today's Scenario**

The end of the Second World War brought renewed life to globalization. Since 1950, the volume of world trade has increased by roughly 20 times from \$320 billion to \$6.8 trillion (USD). Between 1980 and 2000, flow of foreign investment had increased approximately twenty-fold, from \$57 billion to around \$1.3 trillion. This increase in trade and foreign investment allows consumers around the world to enjoy a broader selection of products.

As a result of the explosion of trade and technology, the current rate of globalization is unprecedented. Author and journalist Thomas Friedman stated that today's globalization is unique because what was once accomplished only by corporations is now being done by individuals, allowing them to reach around the world "farther, faster, cheaper, and deeper." Examples are everywhere, which we experience every day. Internationally, millions eat Kentucky Fried Chicken, drink Pepsi, drive Hondas, listen to music on Sony mp3 players, and play sports wearing Reebok sneakers.

Nowadays, many companies outsource their manufacturing operations to developing nations. For example, American and European clothing companies employ workers in Indonesia to produce their products to be sold back home. Technology firms employ programmers in India to write programming code. Telecommunication companies place call centres in India to handle customer service.

### **V. Globalization and Retail Trends**

In recent years, globalization has become a hot topic, one that has been associated with trends such as the following:

1. The rise and expansion of multinational corporations with business interests and employees in several countries, including McDonald's, Coca-Cola, Toyota, Sony, IBM, Unilever, Nike and Shell.
2. The emergence of global financial markets in centers such as New York, London, Frankfurt and Hong Kong, providing businesses around the world with easier access to financing.
3. Greater levels of immigration, changing the ethnic, cultural and religious composition of several countries and leading to the establishment of multicultural societies.
4. The erosion of trade barriers between groups of nations, leading to the emergence of powerful trading blocs, with names such as NAFTA (the North American Free Trade Agreement), the European Union and the ASEAN (Association of Southeast Asian Nations).
5. The rapid and continuing globalization of the world economy leads to globalization of retailing activities which is a major management issue for most large retailers today and is likely to intensify in the coming decades.

## VI. Globalization and Retail

Observing recent strategies in retail and developments in technology and trade leads me to believe that the following issues are in play - together these will form the vortex of those changes.

### 1 Balance of Power between Retailers and Consumers

Sometime during the 70's and 80's the balance of power between retailers and suppliers shifted. Where both sides competed for the attention of the consumer and therefore power in the relationship that determine profit margins. Despite huge vendor advertising budgets, power currently lies with the retailer in their ability to control assortment and price. We are now witnessing another shift in power - this time from the retailer to the consumer - largely brought about by the web and the fact that the web is now bi-directional. There are three phases to this change:

- **Consumers will independently write, share and network** - Consumers meet and discuss in online forums, review and comment on blogs and comment randomly about what they want or have bought in Facebook and Twitter. In fact the retailers themselves have recognized the need for consumers to comment and review that are now promoted to personal networks via Facebook and Twitter.
- **Consumers will organize into cohesive groups and act** - It is only a small step for consumers to unite, organize and act - or to have organizations help them do that. They take better services to get a better deal from existing price promises and discounts.
- **Organizations will formalize around shared consumer needs** - As consumer action becomes more popular organizations will emerge to aggregate consumers by needs or other segmentations and then act on their behalf - these are the fourth parties described by the VRM movement. This will be the main power shift towards the consumer - where an ecosystem of organizations appear that allow the consumer to be spontaneously and temporarily organized into collectives that exert market forces on retailers - whether it be to source a product, set a price or to address another specific need. This infrastructure will also enable the consumer to maintain their privacy (in an age of intrusive marketing and online insecurity) and to provide information in a machine readable format under their own control this is being terms Business-to-Individual commerce.

### 2. The Mix of Retailing Channels - Stores, Online, Mobile and Social

These days a basic strategy to monetize interactive TV via a retailing proposition was expanded to demonstrate a multi-channel concept with three pillars: **Selection, Order, Fulfillment**. Twelve years on this is reality with smart phones, tablets, streamed content and the full complement of retail fulfillment infrastructure. What is now lacking is the deep integration of those three pillars into a truly multi-channel enterprise.

The integration is currently at an early stage: A high proportion of traditional retailers have now created online stores, a few allow their customers to pick up in store. Some online stores have mobile interfaces, a few allow the customer to order and pay online. Some online retailers have marketplaces where 3rd party vendors can sell their

goods, a few allow those goods to be picked up at a physical store. Some retailers are able to take foreign credit card payments, a few are able to fulfill abroad.

When considering 'multichannel' each retailer will have unique objectives like

- Using online to reach a geography currently not served by physical stores - to enter new markets nationally or internationally.
- Using online to increase the available assortment to customers - to move into new categories or to increase sales.
- To use an existing physical distribution network to increase shipping margins - to compete with high volume pure-plays.
- To leverage mobile social media for a real-time shopping experience coupled to online or kiosk based ordering and in-store fulfillment - to remove friction in the user experience.

### 3. Globalization of the Demand Chain

The last twenty years has seen ever more production moving offshore. The increase in shipping traffic bringing manufactured goods from developing to developed nations has grown, even though the recent recession there was only a slight dip with current predictions signalling recovery. However retailers looking for growth outside of stagnating domestic markets are building a presence in developing economies, many of which are the source of much of their inventory.

Retailers have been embracing sustainability for some time - pressure from advocacy groups, environmental stewardship and social responsibility are all creating pressure to adopt new Corporate Social Responsibility initiatives. One outcome of this is Local Sourcing. If these initiatives are properly designed, they could pay for themselves with certain supply chain savings, increased reliability of supply and if marketed well, could drive customer visits, sales and profitability. Forecast Emergence in Mainstream: 2013 - The notion of 'global' is changing, retailers must embrace both global supply and demand and be prepared to establish partnerships and alliances and to understand local markets in order to compete in the new international markets.

### 4. Demanding a new Analytic Infrastructure

The most retail businesses can be summarized as four concurrent but asynchronous processes - that equate to four lifecycles.

1. Customer Lifecycle - from the time a customer discovers retailer to the time they say 'remove me from your database'
2. Customer Order Lifecycle - from the moment the order is placed, thru' purchase, delivery and return or refund
3. Replenishment Order Lifecycle - from the moment a Vendor order is placed through the time it is available in the warehouse or store
4. Product Lifecycle - from the time a product is announced to its end of life and disposition

### VII. Relationship between Globalization Trends and Development of Retail

The fast and continuing globalization of the world economy means that globalization of retailing activities which is a major management issue for most large retailers today . This analysis give some limitation toward the impact of globalization trends on the development of retail industry into two main components, they are the emerging of on line retailing (e-commerce) and the internalization of retail operation. This limitation established in order to make this study stay on the focus and in consideration that the on line retailing represent the impact of globalization trends in the technology of computer, communications and information; meanwhile the internationalization of retail operation represent the impact of globalization trends in containerization and the declining of trade barrier worldwide.

The technology of information, computer, and communication create the concept of on-line retailing, which means that customers don't need to visit a store but they can shop a product through the internet from home,

working place, elsewhere. According to Boston Consulting Group (1999), on line retailing in total has certainly grown significantly in term of sales from a few billion dollars in 1995 to an estimated 86 billion dollars in 2009. However, the pattern of growth is not consistent across all product categories, company types, or indeed, between companies based in different countries. There are many types of product which are commonly offered through the internet like books, clothes, electronic products, insurance products, gifts, etc. (cited in Keegan, 2002).

Kotler and Armstrong (2004) explained that there are several benefits to the retailers which conducted the on line retailing. The first benefit is giving the opportunity to the retailers in building customer relationship because the retailers can interact on line with the customers to learn about specific needs and wants, moreover the customers can propose questions and give the feedback to the retailers. The second benefit is the reduction in costs and the increasing of speed and efficiency. By implementing on line retailing, the retailers avoid the expense of maintaining a store and other operation costs. The third benefit is that retailers can manage its supply chain activities like order processing, inventory handling, delivery, and trade promotion efficiently. The fourth benefit is the greater flexibility for retailers in adjusting the offering to the customer and the last benefit is the opportunity for retailers in connecting to global customers.

On line retailing is truly a big phenomenon in the retail industry worldwide because it changed the way people in doing transaction and it created the concept of non-store retailing format. Nowadays, the on line retailing become a serious competitor to the fixed store retailing. Therefore many traditional retailers have tried to develop their own presence on the internet (Davies and Ward, 2002). Another issue regarding the impact of the globalization trends in the development of retail industry is the internalization of retailers which means that the retailers do expansion of its retail operation in order to reach international market. Keegan (2002) pointed out several alternatives in reaching international market that are sourcing, licensing, and investment.

### **VIII. Conclusion**

Globalization is a continuing process that creates the trends which provide its impacts on the society and on the development of retail industry as well. The emerging of connecting technologies and the declining trade and investment barriers worldwide are the main of the globalization trends. Those trends changed the macro dimension of the society such as economic, political and legal, social and culture, and technology. This changing led the society into the global world where the global products and brands, and global culture become more popular within the society. Meanwhile those trends also influenced much on the development of the retail industry. The retailers begin to enter the new international and global market to serve the global customers in the global competition. Globalization with Innovation is a solution to sustain in the industry. Consumer taste and perceptions are more important than any other strategy. But certain industrialists always thinking for new innovations in the industry for their footprints in global markets, such people only thinking about globalization of their brands at the same time they will adopt “THINK GLOBAL AND ACT LOCAL” strategy.

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