RETAIL SUPPLY CHAIN: CHALLENGES AND PROSPECTS

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Abstract

A supply chain is incomplete if there is no proper distribution channel that delivers goods to the end users. It is equally underperforming of the supply chain if the retail link is missing to satisfy demand. The effect of this will be felt by the final consumers because of the ease of buying off the shelf rather than directly from the distributors. The popular saying, 'the world is a global village' shows that internationalization is increasingly becoming a past debate of governments and is seen as a platform of opportunities and competitiveness. This new trend implies that clusters of cultures and ethnicities are finding themselves far away from home. It requires effective retailing and logistics to deliver familiar groceries to these displaced people in their newly adopted countries. It is therefore increasingly interesting to see how a small retail business can respond to changes in consumer demands.

Retail supply chain; challenges and prospects aims to holistically review the retail supply chain, the challenges and emerging trends, with a particular focus on the supply chain for small business owners. Retailing tasks, retail classification, differences in grocery and fashion retailing, challenges and opportunities for prospective retailers, supply chain management and small businesses are discussed amongst others. The feasibility for supply chain for the small retail business and results that help make the case company edge competitors are also part of the discussion. Theories, opinions and recommendations used in this research work were based on extensive use of primary and secondary research methods which include interview, textbook, dictionaries, case studies and internet media. At the end recommendations on inventory management, formation of buying group and extensive use of niche merchandise are put forward in this project work. The contents of this thesis will come in handy for prospective retail entrepreneurs and researchers. There is also a possibility for further research into the transformations in retail supply chain like the Quick Response, Factory Gate Pricing, Efficient Consumer Response, Agile, Lean and leagile Supply Chains.

Keywords Retail, small business, challenges, prospects, logistics, Supply Chain & Technology

Miscellaneous

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1. OVERVIEW

It is already a fact that a chain is as strong as its weakest link. This is not alien to a product supply chain which becomes incomplete without an effective and efficient passage to the final customer. Consumer demands have changed over the years from store based buying to online purchase, environmental concerns, corporate social awareness, good product condition and packaging, and on-shelf availability of the products. All these and more have sparked an increased competition right from the upstream through downstream supply chain to provide the ultimate value for money to the customers.

Internationalization has also increased the vibrancy to which companies design their supply chain and demands frequent changes to the market. The idea with (Integrated Logistics Management) is laying an emphasis on the whole activity of the parent company (manufacturing company) through its entire value chain to get real time information throughout the Business to Consumer (B2C) channel. This information can be informing of orders, point of sales data, forecasts, EDIs and so on. The implementation of an adequate information technology is particularly important for the success of any business involved in supply chain activities. A technology sound supply chain improves company practices as well as reduces cost in the form of excessive inventories, warehousing activities and markdowns.

Due to the stiff competition between supply chains, the retail link has had to alter practices for the bigger part of the transformations witnessed in the industry. This is simply because of the vulnerability of the (retail) link to the consequences of loose practices that might occur in the process. Big retailers like Zara, P & G, Wal-Mart, & IBM have revised their retail practices more often than their competitors in similar fields. Their winning emphases focus on operational effectiveness and operational innovation and strategy according to Chiles and Dau (2005, 15). Operational effectiveness is usually devised for mass merchandise while the operational innovation is suitable for Fast Moving Consumer Goods (FCMG). This is usually done in order to balance the deficit that tends to occur between their service level and cost of operation. It is

imperative to discuss the retail and supply chain, because their implementation is intrinsically connected to the final price customers pay for commodities. Competition is also leading the way in which companies consistently tweak their supply chain in order to gain cost advantage, which automatically translates to a larger profit and larger market share.

A quick check in the school archives reveals that discussion on retail has been overlooked in the past. This motivated the author to take up the task of studying the retail business focusing on the small business owners. This introduction part will be followed by the theoretical aspects of the concepts involved. These include in-depth analysis of retail, supply chain & logistics and small businesses. These topics are discussed in chapters 2, 3, and 4 respectively. Chapter 5 contains the current situation analysis of the target company and as well as the results and conclusions drawn.

1.1 Aim of the Study

This thesis topic aims to holistically review the retail supply chain in relation to the challenges and emerging trends, but with a particular focus on the small business. The interconnectivity of the retail and supply chain are discussed and the strategies that help maintain competitive edge are also analyzed. Small businesses and their characteristics make up the final theoretic basis of the thesis. An analysis of the compatibility of a small business and supply chain also make part of the discussions. Opportunities for feasibility and viability are suggested at the end of the thesis.

1.2 Company Presentation

Zaiki investment Oy is a small grocery shop located in Haapaniemenkatu in Helsinki. It was established in 2005 after the owner retired from his work as a practicing gynecologist in the Finnish civil service. It simply focuses on buying and selling, otherwise known as retailing of food and groceries. The company is the smallest of its kind in the region. The business is estimated by the owner to be worth about 70,000 euros in products. The business owner has a

liberal attitude to the business as this is just an attempt to keep him busy during his retirement days, although he gave a valuable insight into the nature of the business in that area.

2. RETAIL

According to the Indian textbook, Marketing Management, the word retail is derived from a French word 'retailer' which means to 'break bulk' or 'to cut a piece off'(Retail Meaning). This indeed is the task of the retailer. In simple definition, retail means 'to sell in small quantities directly to the ultimate consumer' (Merriam-Webster dictionary). Ayers and Odegaard (2008, 3) described it as 'the final sales to mostly nonbusiness customers or end-users often called consumers'.

At present, competition has increased the concept of this role. According to the above definition, the consumer of a product is the non-business customers or end users of the product. Ayers and Odegaard (2008, 3) identify two forms of retailing. Business to consumer (B2C) is the retailing done directly to the final customer. B2C retailing is usually categorized in two divisions mainly based on their distribution method (Retail Categories: Distribution Method). Shop based retail is the traditional form of buying and selling between individuals. The business transaction is done with the physical presence of a buyer and seller at the retail shop (brick and mortar). These kinds of stores can be in the form of stand-alone, strip shopping centers, shopping area, regional malls etc.

Non-store retailing was born with the introduction of the Internet. This generally means the transaction between buyers and sellers without meeting at a property where the goods are sold. Most of these purchases are made from the comfort of the buyers' home using the Internet. This has been the most popular form of buying over the past decade and is already tipped to stay. It is now increasingly adopted by retailers to maintain competitive edge. Non-store retailing can be done in six different categories (Non store retail

format). These include, in home retailing, telemarketing, catalogue, direct response, automatic vending and electronic retailing

Business to Business (B2B) are those purchases carried out between firms, for instance between first & second tier suppliers. This can include supplier to manufacturer, manufacturer to wholesaler and wholesaler to retailer.

2.1 Retail Tasks

Retailing tasks can be simple to describe on paper but can be tedious in actualization. These tasks are embarked upon to make buying easy for customers. Ayer and Odegaard (2006, 4), identify the major tasks of a retailer as described by Levy & Weitz, authors of a popular retail text.

One of the tasks of the retailer is the collection of an assortment of goods from various marketers. They purchase in big quantities and sell in small quantities to the customer. Breaking Bulk in which retailers buy products in big quantities and then break them down into consumable sizes, is another of such tasks. This buying style is to reduce transport cost to the retailer. They also ensure that products are available for consumers to purchase. Retailers use forecast data from the past sales history to determine the amount of stock to hold for each period. Lastly, there are added services at the discretion of the retailer to allure customers to their stores or rather give customer satisfaction. Such services include gift wrapping, delivery, installation etc.

2.2 Significance of Retail to the Economy

No economy can survive without retail activities. It is an important part of a nation's economic progress. There are various ways to identify the benefits of retail in our society. The first benefit to look at is in the job creation. Retailing activities create jobs in various ways. The jobs come in various roles and can include sales, warehousing, managers, distributors etc. All links in the retail value chain are potential job creators. Hence the more retail outputs there are in a country, the more impact there is on her unemployment levels.

Gross Domestic Product is one of the indicators of an economy's performance in terms of output. This is one of the three ways in which a country's GDP is measured. The information gotten from the GDP is used to make vital decisions in the country to counter any inflationary effects or otherwise. The tax earnings by which many governments rake in a lot of revenue can also come from the retail sector. The amount of a country's tax revenue is highly dependent on the amount of activities carried out in economic activities. Finally, a country with strong retail activities is more likely to entice investors into their economy. This is one of the most important decisions for investors when reviewing new economies to break into.

2.3 Retailing Classification

Theorists have propounded a classification for the identification of products in the retail stream. This was deemed necessary to allow easy grouping of these products based on their replenishment methods, forecast methods, planning systems etc. Retail merchandises are therefore classified into two different categories depending on their sales history (Ayers & Odegaard 2006, 23).

2.3.1 Staple or Functional Products

Staple products are products that are purchased on a daily basis. These include grocery products, basic clothing etc. These set of items have predictable sales. Automated planning systems are used to manage stock replenishments for staple products. This is because these items have a reliable sales history, thus they are forecastable. Durable staples can be held in excess inventory for the short term unlike perishable items. Product markdowns will be avoided. Sales data are used to compute order points and order quantities based on past sales and forecasts. In a situation when lead times can be shortened, safety stock can be reduced simultaneously. Forecast errors occur when there is a difference between the actual demand and the forecast. In such cases formulas are employed to make necessary

adjustments. Supply chain design based on operational efficiency is mostly suited for functional product. (Chiles & Dau 2005, 16.)

Staple products are classified according to their inventory styles according to Hugos (2006, 12). Hugos cites the cycle inventory as those inventory items held by the store to fulfill the demand between orders. The amount of cycle inventory to be held is a factor of the interplay between production, transportation or batch sizes. Economically, companies should purchase in large lots to benefit from economies of scale in transportation, production or administrative costs. But in the real world, things seem to happen a bit differently. The cost of carrying inventory plays a major role in the frequency-of-buy decisions in most companies. This is one of the headaches a supply chain manager faces in his or her role. They are often charged with finding the trade-off between the cost of holding inventory and the frequency of transportation of goods in terms of cost.

Hugos further explains the seasonal inventory as those items purchased and stored in anticipation for future demand. According to Chopra and Meindl (2010, 48), 'these are built up to counter predictable variability in demand.' Either in retail or manufacturing, companies invest more in a low demand period with the aim to have enough inventories to fulfill high demand periods. By so doing, they make gains in economies of scale in transportation, production (as the case may be) and ordering costs, all of which might not make significant cost improvements with the cost of carrying inventory consequently higher. Effective managers would have to determine, how to balance this cost gap. In production for instance, if companies can change their setup at a very low cost to meet high demand times, that will improve their baseline rather than building inventory for the peak period. If the case goes otherwise, then companies would do better by storing inventory during low demand periods.

The safety inventory is the third type of inventory, kept to make-up for uncertainty during a reorder period and variations in anticipated lead times. Hugos further provided ways to reduce safety stock. Better forecasts reduce forecast error. More on-timely delivery times so as to reduce lead times and

variability in lead times should be minimized. Collaboration with suppliers to ensure availability of the product, which includes shared forecasts or access to in-stock status data.

In an ideal world, only cycle inventory would be needed in fulfilling demands. But uncertainty that arises due to various reasons highlighted above makes it necessary to use data to establish a safety inventory calculation. When making these calculations, seasonal inventory needs to be given enough consideration. For instance, a gift franchise company will have to make safety stock higher in Christmas than off season because of the high demand expected. If these things are not carefully considered the company will lose out on sales and the margins lost during these periods could be damaging to their operations. Likewise, having excess stock would mean having to resort to cost mark downs & sales activities thereafter.

2.3.2 Innovative Products

These sets of products are more difficult to forecast. But they provide huge profit margins to manufacturers or distributors. They are also characterized with short sales period, which usually includes new product introduction, seasonal products etc. Innovative products require a flexible supply chain because they are difficult to forecast. They have a better profit margin and occupy higher markup percentages than staple products. More differentially, they have multiple retail paths to customers.

2.4 Challenges of Retail Supply Chain

Challenges in a retail supply chain can be very costly if the system is not properly designed. There are a lot of these bottlenecks retailers face in the quest for a successful business. These glitches can be looked at as external and internal problems. Although this classification is just the opinion of the author, it is very possible for readers to view it otherwise. These challenges are discussed under the following headings.

2.4.1 Supplier Reliability

This is perhaps a major problem for a retailer. If a supplier fails to perform his function there will be no product for the retailer to sell. This can lead to lost customers, plummeted sales turnover, lost profits etc. In the process of supplier selection it is important to choose reliable suppliers. When carrying out this task as a retailer, supplier history and reputation should be heavily researched. After carefully identifying a supplier, supplier relationship management is also an important part of the supply chain process to which any retailer should endeavor to give a close attention. Reasons like discriminative pricing, priority attention, first-hand information and process innovation cannot be far-fetched as the benefits derived from such relationships.

2.4.2 Misalignment of Retailers

In the past, the manufacturers have been the ones who have designed the supply chain. The effect of this has been detrimental to the business of the retailer. Since the retailers are the ones who get the most important information about the customer needs, it is quite logical for them to have a say in how the whole process is structured for perhaps their own profitability and needed service outcome. What this means is, for example, that some retailers are opting to take control of transportation of their goods at the factory gate of the supplier. The transportation cost will be carried by the retailer and be subsequently introduced on the final price of the products. This trend is called the Factory Gate Pricing and is taking over the U.K retail industry.

2.4.3 Globalization

In the 21st century, outsourcing and potential markets have impacted the way the retail supply chain is structured. The strategies applied in this situation depend on the nature of the merchandise. Notwithstanding, it still favorably suits the big retailers better to source globally than their smaller counterparts because of the absence of negotiation power. Low manufacturing cost

especially on some innovative products from China and Asian countries have shifted the paradigm from local manufacturing to global sourcing. Of course, this affects the supply chain at large in terms of complexity as well as cost. But this is where trade-offs in total cost vs. individual cost come into play.

2.4.4 Online Competition

Over the last decade, the Internet has changed the way we make purchases. Whether the business to business (B2B) sector or the business to customer (B2C) sector, there has been a considerable level of convenience that comes with buying things online. For the B2B sector, it has been able to save cost of travel and other imminent expenses. While Fernie and Sparks (2009, 208) argue that the B2C sector has not been really profitable because of various reasons, for instance the presence of intermediaries. Many more entrepreneurs are looking into this channel to increase their baseline. It is only certain that this online trend will continue as many more people begin to have access to various sophisticated devices that can help them in making online buying. Amazon, Netflix, e-bay etc. are pioneers of the online shopping experience; they have made major revenues through their various innovation strategies.

2.4.5 Big Retailer Prices

Bullying is a very common happening in the retail sector. Big companies, e.g. Wal-Mart, have over the years been accused of bullying by many small and medium sized retail outlets for their cut-throat prices. This is only a natural occurrence because of the high negotiating power these companies possess. They often take away the sense of community that has for long had a tradition where people buy from smaller neighbourhood shops. Many governments have been making unprecedented moves to help sustain these small retail shops but have only seen their efforts mostly proved abortive (Is this the end of local stores?).

2.4.6 Technology

Retail stores are endeavoring to take advantage of the full potential of technology in carrying out their activities. Many technologies have propped up from time to time to make activities in the retail supply chain efficient and effective. These technologies range from tracking devices (RFID &EPCs), Transport Management Systems, EDIs, Point of Sales Systems, etc. Although these devices have great benefits, they still come with a great cost of acquisition. The bigger companies can afford to make such investments, but the same cannot be said of smaller retail stores. For the small retailers, the cost of investing in these technologies could be the cost of the total stock keeping units in their warehouse. Returns on this investment would, however, take forever.

3. SUPPLY CHAIN MANAGEMENT

Apart from the traditional act of buying and selling most of the retail task is driven by the supply chain. For profitability, a retailer has to look far beyond these pure transaction functions. Although some argue that supply chain implementation is complex, the numerous financial gains that have been observed by the companies making a full potential of supply chain management cannot be downplayed. Most big retailers already pay most attention to the management of their supplies. These include alignment, synchronization, and relationship building. Not all SME's have paid attention to supply chain management for various reasons. For some of them, it does not add significant value to their operations and some they are just unaware of it.

For this reason, it is important to revisit the definition of supply chain management and show that retailing, no matter what the company size is, is inevitable in supply chain management. Arend and Wisner (2003, 403), define supply chain as the integration of key business processes with trading partners for an added value to customers. By this, they mean creating a close knit between the partners upstream through downstream of the value chain for efficiency. This is done by sharing information with the suppliers, jointly

designing the supply chain for optimization using tested tools and information technology. It can also be termed an end-to-end process for information to pass through all partners for action.

According to the Institute of supply management, Supply chain management is the process of managing fourteen functional areas to increase value for customers and for business viability. These functions include sourcing, purchasing, inventory control, material management, quality management, logistics, transportation, disposal (recycling), warehousing (storage), distribution, receiving, packaging, product/service development, and manufacturing supervision. Edward (2011.)

Companies that critically asses these operations and use best practices to fulfill their activities will reap significant cost savings. The baseline for the operations is the utilization of lean principles in their operation. Lean is the term that originates from the Japanese auto giant Toyota to revolutionize the car manufacturing industry. It simply is the elimination of any kind of wastes in the supply chain process. Whatever does not add value from the customer perspective should be rejected. Interestingly, each successive hierarchy in a supply chain is a customer to the preceding hierarchy (supplier). This gave birth to the idea of continuous improvement, which is the philosophy stating that no particular business operation is perfect. The business must be re-visited and loopholes should be eliminated as long as it gives no value.

As seen above, logistics is described to be part of the supply chain activities listed by the Institute of Supply Management. But many other definitions of Logistics actually subsume the definition than viewed by the ISM. For further clarifications, Logistics will be explained further in context as a sub chapter which will then be followed by the ISM activities of supply chain.

3.1 Retail and Logistics

Webster's dictionary defines Logistics as 'the procurement, maintenance, distribution and replacement of personnel and materials'. This definition isn't particularly right for today's logistics industry because of the changes in

function that has occurred in over the years. A more justifiable definition for Logistics management is provided by the Council of Supply Chain Management Professionals (CSCMP). They define logistics as 'the part of supply chain management that plans, implements and controls the efficient, effective forward and reverse flow of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements'.

As it can be seen from the CSCMP definition above, logistics is a part of the entire supply chain process. Ayers and Odegaard (2006, 7) define supply chain as '*Product life-cycle processes comprising physical, information, financial and knowledge flows whose purpose is to satisfy end-user requirement with physical products and services from multiple and linked suppliers'.*

The distinction between logistics and supply chain is that Logistics links together the processes in a supply chain. The success of the whole business which is dependent on the supply chain is thereby hinged on how well the logistics tasks are performed. Therefore supply chain is all about processes which depend on the design adopted by each company. According to Ayers and Odegaard (2006, 3) they are shown in Figure 1 below.

i.   Customers and end-users
ii.   **Retailers**
iii. Distributors
iv.   Original Equipment Manufacturers (OEMS)
v.   First-tier suppliers
vi.   Second-tier suppliers
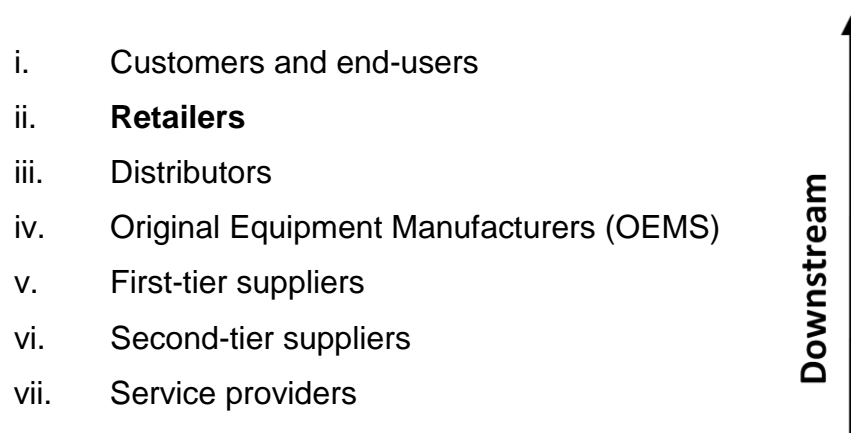vii. Service providers

Downstream ↑

FIGURE1. Hierarchy of Players in the Supply chain

For a retail business to be profitable, its success hugely depends on the efficiency and effectiveness of its logistics tasks. Logistics has been earlier defined at the beginning of this chapter. It is noteworthy to understand that warehousing, inventory, transportation, unitization or packaging and communication as explained below are parts of logistics.

3.1.1 Sourcing

According to Lister (2010), sourcing is defined as "the processes involved in identifying potential vendors, conducting negotiations with them and then signing purchasing agreements with them to provide goods and/or services that meet your company's procurement needs. This is a self-explanatory function and is needed by any business operation be it in goods or services. The act of professional sourcing is now gaining recognition worldwide after been given less attention in the past. This function can be expanded or contracted depending on the organization in question. Those in the sourcing business as well as researchers have identified four sourcing alternatives. Zeng, (2000) classifies sourcing as single sourcing, multiple sourcing, global sourcing and network sourcing. Giant retailers like Wal-Mart, Tesco, Asda etc. with millions of product lines are using these classifications as part of their sourcing strategies.

3.1.2 Purchasing

Purchasing is often interchangeably called procurement. The same definition applies to both only that procurement has a broader task compared to actual purchasing. The business dictionary defines purchasing as an activity of acquiring goods or services for achieving the goals of an organization. The task starts from the specification and ends with the follow up and evaluation. Van Weele (2010). Purchasing can be tactical or an order function. Retail purchasing is usually geared towards the order function because it is not usually involved in the manufacturing process, which makes more use of tactical purchasing. All types of businesses need purchasing expertise to be able to get the best out of their suppliers. The scope of the purchasing

function usually depends on the size of the firm. The Institute of Supply Management (ISM) argues that when sales are flat and the inventory is not turning as it should be a 2.5% savings in procurement costs equal the same amount of profit by increasing sales by 10%. This is one way to look inwards into the supply chain activities as a channel to profitability and the same goes for retailers.

3.1.3 Inventory Control

Inventories will remain in organizations operations as long as there is an imbalance between demand and supply. Keeping inventory has been a safe act in the past under Ford's production model and it still is. Investigations and years of research, especially through the Toyota production model have seen the death of inventory in most businesses. The main reason is that inventory constitutes a waste, be it in manufacturing or retail. So inventory control relates to policies and operating procedures designed to optimize the organization's use of inventory for maximum profit without disruption in customer satisfaction levels (accounting tools). No matter the size of the store, retail inventorying is regarded as a difficult thing in inventory management. This is because of the total number of product lines available for sale. A retailer must have expertise in the inventory management to be able to get the best profit out of the business. The first step to retail inventorying is to separate the product lines into grocery and non-grocery (Difficult task of retail inventory). The decision making factors in inventory control are cost of holding stock, cost of placing an order and cost of shortage.

With adequate data on these three variables available, businesses can know to what extent they can hold inventory to avoid markdowns and losses. Waters suggests retailers should create an Open-To-Buy-Plan. Software for inventory calculation and forecasting has also made it easier for business owner to optimize the inventory decisions (Open to buy Planning).

3.1.4 Quality Management

There is the notion in industries that there is no single definition for quality management. This is a generic term and the conception is different in manufacturing, retail, transportation, banking, IT etc. But to a retailer, what really make a quality operation is less waste, more sales and more profit, Gorecki, (1996). These three philosophies does not seem as easy as they look because they represent the sum of all the activities needed to be carried out in retail supply chain management from sourcing to consumption including logistics activities. Rose (2005, 41), classified quality management in four different components: quality planning, quality control, quality assurance and quality improvement. These four differentials are the success factors for ensuring quality. A retailer will need to carefully look out for reliable suppliers, ensure their products are of quality and find means to improve relationships with best performing suppliers.

3.1.5 Transportation

Retail transportation has evolved greatly over the years. There has been a transition from hands-off to hands-on transportation duties. This new power gained by retailers pioneered by mega-groups like Tesco, Wal-Mart, etc., has seen them take control of transportation from primary distribution to the secondary distribution. This means that they employ the services of 3PL companies to discharge these duties. But the emphasis on leagile (lean + agile) supply chain has resulted reduced inventory and increased order of small quantities. Retailers now have to monitor every part of their transportation ever since they took responsibility. There are numerous risks involved in transportation in general, especially when international logistics is involved. Congested ports, rising fuel costs, pirates, natural disasters, labour strikes, theft, underperforming logistics providers, to mention but a few, are some of the issues to be encountered in international transportation and can cause stock outs. It requires strategic thinking to come up with a workable plan that will make transportation improve the whole operation of the retail firm considering all the odds listed above. Transportation routings, transport economics, transportation software including forecasting, optimization and simulations are some of the tools deployed by forward thinking companies to

ensure efficiency in transportation. Issues of sustainable transportation have also been on the lips of practitioners and governments.

3.1.6 Packaging

Having the right package for products is something very dear to retailers. The big retailers have been strongly involved in collaborative R & D efforts with manufacturers for packaging efficiency. There are numerous factors that can be considered in packaging ranging from size, information, design, material etc. The choice of packaging for products really goes a long way to determine the salability for that particular product. If the packaging is right, it eases the job of transporters and also reduces cost in a lot of ways. There has also been increased talk of environmental concerns, which are becoming more of a factor for consumers on their choice of environmentally friendly products.

3.1.7 Warehousing

The business dictionary defines warehousing as the performance of administrative and physical functions associated with storage of goods and materials. These include receipt, identification, inspection, verification, putting away, retrieval for issue, dispatching, inventory management etc. The form or choice of warehousing for companies has evolved over the years. Considering different factors, companies may choose to retain their warehousing operation in-house or have it outsourced. This is a very important aspect of retail as the amount of SKUs in retail management can be considerable large. There are Warehouse Management Systems in place to make the administrative function easier for balancing. Most warehouses are fully automated to ease the burden on wage cost.

Pallets placed on racks are used as a standard for the warehousing operation. Warehousing of cold food chains is also a very important part of this function especially for the staple retailers. Knowing the size of space needed for the amount of SKUs the company utilizes is also important, because there is no need for a waste of space in the warehouse particularly when it is outsourced.

3.1.8 Receiving and Inspection

This function is very important to retailers especially those who pay attention to quality. This is a way to ensure that customers do not receive poor service for their money. The deliveries are checked for shortages and quality level on arrival. This can be done by inspecting all individual items or by using some calculated assumptions. The documents are received signed by the deliverer and recipient. Returns are then looked out for if any.

3.1.9 Disposal and Recycling

Retailers have been charged with a part responsibility for ensuring that customers have a clear reverse logistics channel after the life cycle of a product. Most retailers are working hard to ensure that they contribute their fair share to environmental concerns. A good example is the bottle return policy exercised in Finland. Customers gain some amount of money on return of their bottles or cans. This is some kind of incentive to help motivate consumers in environmental awareness.

3.1.10 Communication

The saying that 'information is moved and not product' is important in this case. The communication through the supply chain process particularly helps logistics perform better. The information includes demand and supply volumes, prices, stocks levels, product tracking. It is therefore imperative for retailers to get hold of data that are useful for the upstream supply chain for efficient and effective performance. ERP, EDIs', tracking devices, GPS, RFID, management systems, routing systems are all tools that allow for a smooth operation, but will be very complex with them.

3.2 Integration of Logistic Mixes

The success of retail depends on how the five logistics elements, as shown in figure 2 below, are implemented. This is where the concept of integration comes into force. The reason for this is that treating each of these elements separately might not bring transparency into the system. This brings about sub-optimal performance into the systems operation.

From the figure below, it can be said that the combined challenge for retail is balancing the weight of cost and service level while utilizing these logistics tasks. It is believed that if the system focuses more on cost, this might affect the service level and also on the other way round.

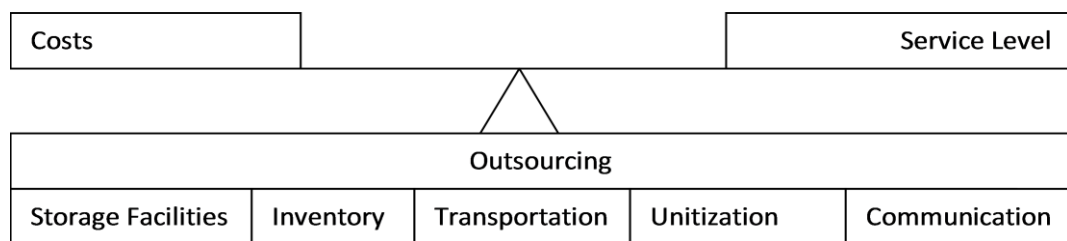| Costs				Service Level
Outsourcing				
Storage Facilities	Inventory	Transportation	Unitization	Communication

FIGURE 2. The management task in logistics, Ferne & Sparks (2009, 9)

After brief discussions on these supply chain activities, it becomes obvious that supply chain practitioners have a clear description of their practice jurisdiction. Although treating each of those explained above as a single entity would not contribute anything to the target at hand, a more integrative and collaborative effort amongst each of these channels together with applying strategies and best practices will ensure a more result oriented approach. There can be significant cost saving measures in each of these tasks; it now remains to the company in question to keep an eagle eye on those aspects that will reduce these costs. The supply chain integration will be much easier with the right technology in place. This includes information technology to

share data, tracking systems, identification systems, routing technologies and software. This explains the forms of integration and cost saving approaches that is been adopted in the retail supply chain.

3.3 Retail Supply Chain Transformation

Notwithstanding all the different entities discussed above, there have been developments in the retail industry that are aimed at balancing service level alongside costs. These are commonly referred to as retail supply chain transformation. These are strategies that have sprung up from different economies to challenge the status quo. One of such concepts includes e.g. consignment stock; as a means to reduce the liability of the retailer to excess inventory. To this end, researchers in the retail commerce business have discovered new trends in retailing that are currently being adopted by the leading companies to counter the effect of competition in their business. Fernie and Sparks (2009, 10), highlight various transformations going on in the retail industry. These changes can be attributed to increasing consumer preferences on the demand for products. Explained briefly below are some of the issues that have been discussed in the industry.

3.3.1 Global Sourcing

Low Cost Country Sourcing (LCC) is a trend that has radicalized the retail industry over the past decades. Business owners look for ways to leverage their investment and returns by towing this path. Of all the benefits that it accrues, it also comes in handy with risks that can be as costly as damaging a company's long earned and much cherished brand not to talk of the complexity that is inherent in the company's supply chain. Consumer awareness of their immediate environment is pushing them to demand more accountability in the companies they patronize their products in which raw materials or labour have been sourced abroad. There have been various concerns expressed also by various Non-Governmental Organizations (NGOs) that are increasing this level of awareness.

Corporate Social Responsibility is leading the demands by these organizations. Ganesan, George, Jap, Palmatier and Weitz (2009, 85) cite Luo and Bhattacharya (2006) that Social responsibility as perceived affects the images of brands and firms, the propensity of consumer to buy specific brands and patronize certain retailers and the financial performance of the firms. For instance, Wal-mart has been continuously accused of poor working conditions of its workers in the U.S on reasons of temporary employments with no full benefits, sidelining of women workers and bullying of neighbourhood stores. Adding to that, Wal-Mart has suffered accusations on labour practices of its suppliers in developing countries and its impact on the environment. All these have motivated Wal-Mart to not only focus on products and services but also to address social issues. (Colvin 2007, 78-9; Mui 2008, 3)

Some conscious minded customers even go as far as getting interested in the Country of Origin (COO) of the products and the use of codes of conducts by firms operating cross country sourcing.

3.3.2 Quick Response

This is simply the alternative designed in the US by textile manufacturers to compete with counterparts who source from low cost countries to gain access to cheap raw material and labour. The underlying idea here is to reduce inventory of unwanted Work in Process (WIP) and balance inventory of fast moving products. This includes reducing order lead time and a more frequent delivery of smaller lots amongst partners. By so doing, the rate of stock turn is increased, and so has the amount of product that has been cross docked. It uses relationships in the value chain to adopt cost saving techniques powered by information technology. Losses are shared equally by the supply chain partners. According to Fernie and Sparks (2009, 45), there have been developments about the benefits QR adds to the business. Studies according to Birtwistle, Siddiqui and Fiorito (2003) on U.K fashion retailers show that companies adopting Quick Response (QR), according to financial appraisal, have not had significantly better performance than their counterparts who did not. This performance is spread over profit, cost, and inventory.

3.3.3 Efficient Logistics Activities

Logistics activities have been mentioned earlier including inventory, transportation. The retailers are improving logistics efficiency for instance by using a 'composite distribution' system (Fernie and Sparks 2009, 10). This is the distribution of mixed temperature items through the same transport and distribution center. It also involves centralization in some specialist warehouse of slower moving stock. Earlier this has been done separately in some cases because of the transportation regulations that limit such activities.

3.3.4 Retailer Contribution Upstream the Supply Chain

The upstream supply chain normally includes the primary and secondary distribution. The primary distribution is that from the manufacturing to the warehouse/distribution center and the secondary from the warehouse to shop. The retailers have increased their presence in both of these hierarchies of the supply chain. This gives them the opportunity to utilize their own logistics assets, which usually is included as part of the supplier task. The retailers resume the operation of the logistics activities at the gate of the manufacturer which has given rise to the FGP (Factory Gate Pricing), which means that transportation cost is not included in the price of the merchandise from the supplier.

3.3.5 Green Logistics

This is also an important aspect of the transformation in retailing. Apart from the fact that retailers are more involved in product packaging than before, taking control of marketing, labels and other sales & operation activities, mega stores like Wal-Mart, Tesco, Asda are at the receiving end of the demand by customers to provide more environmental friendly solutions for their reverse logistics. This is actually seen more as a Corporate Social Responsibility of these companies. Smart companies have anticipated that in future more consumers will be environmentally conscious, and have increased their spend

on R & D for more environmentally friendly practices. Wal-Mart for instance has since begun to work with her suppliers to invest in and research ways to reduce products packaging. This has given rise to a large number of consultancy companies, 3PLs given sustainable green practices to these multinationals that can afford their services.

3.3.6 Efficient Consumer Response (ECR)

This approach is geared to improve services and reduce cost in the grocery retailing. The emphasis on collaboration between suppliers and retailers is to standardize practices in order to eliminate unnecessary cost through the supply chain. Such standardization for instance could be seen in material handling equipment. According to Fernie and Sparks (2009, 49), the main focus for ECR is category management, product replenishment and enabling technologies. These three focus areas can be broken down further into sub parts. Participants in the ECR conferences created a scorecard from Europe, U.S, Latin America and Asia, which was used to appraise the performance of trading relationships. These relationships came under four categories: demand management, supply management, enablers and integrators.

3.3.7 Collaborative Planning, Forecasting and Replenishment (CPFR)

This concept is adopted to foster relationship between trading partners using information technology. Forecasts will be available in real time and a joint management of inventory amongst partners with shared visibility. CPFR is seen as more effective during seasons and promotional periods where there is high unpredictability of demand. Fernie and Sparks (2009, 54), mention that certain preconditions are to be met for a successful implementation of CPFR which include: advanced IT systems, centralized decision making structure, scale to justify the cost incurred, integrated supply chain from supplier to store.

3.3.8 Lean Philosophy

Originally developed in the Japanese car manufacturing industry, the concept of lean has been applicable to other processes where cost savings are the target. The simple idea behind lean is to produce only what the customer wants, when and where it is needed. This is in great contrast to the Ford mass production system where focus is not given to the product and its value stream. Organizations must continue to look for operations that do not create value and terminate them although enhancing value in this process is a watchword. Value in the lean philosophy is only the activity that is done to the product and that the customer pays for (customer's perspective). Wastes can be in form manufacturing waiting times, transportation, excess motion, inventories, overproduction and defects. Various theories have been developed on the extinction of these wastes. Examples range from FIFI (Find It Fix It) using lean suppliers, stopping unnecessary waiting times, warehouse optimization, vehicle routings.

3.3.9 Agility in Supply Chain

Once again, the agile supply chain is created as a response to the lean manufacturing system, which was somewhat adopted to suit the supply chain. Nevertheless, theorists in the U.S argued that a supply chain must be agile to meet the increasing volatility in demand of customers, especially in the fashion industry. Christopher (2000) defines agility as 'the ability of an organization to respond rapidly to changes in demand both in terms of volume and variety'. There is always a need for distinction, of not confusing lean with agile supply chains. This is because lean focuses more on reducing waste while not been as flexible to meet the shorter product life cycle, faster/shorter delivery times, and most importantly leanness shows less attribute of maneuverability. He explains further with a diagram the preconditions for a supply chain to be truly agile.
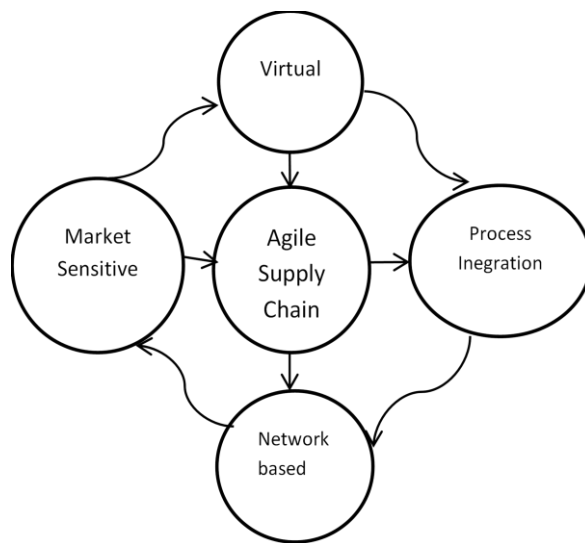
FIGURE 3. Agile supply chain, Martin Christopher (2009)

Market sensitivity means reading and responding to real demand rather than forecasts which have been made previously. ECR has also made it possible with I.T to get Point of Sale (POS) information about customers' requirements and responding directly to it. Organizations are still forecast driven rather than demand driven. But the back bone here is for the supply chain to be designed in such a way that it can react and adjust to this real time demand data. Virtual implies that inventory does not exist, rather information technology drives the supply chain and is used to move products faster. In the past complex formulae have been made to optimize the amount of inventory that is needed as well as the location of these inventories in the supply chain. But with the advent of the EDI and the Internet, the basis on which these inventory formulae were created does not exist. Real time data is now achievable by partners in the chain, which automatically eliminates the stressful need of using complex formulas.

Process integration explains that sharing this information between the trading partners, new product developments and using single information systems. This enables data to be seen in real time amongst the partners. As companies continue to outsource a large part of their activities there is continued reliance on suppliers to be able achieve desired results. There should be no barriers in the process sharing and must also be backed by trust and commitment between partners. Network based attests to the statement that organizations no longer compete, rather their supply networks. The supply chain is now viewed as a collaboration of partners in the value chain. The organizations that win are those who can better design, organize and manage relationships amongst partners. This is because agility as good as it is, can be very disruptive if there is any strain from any of the parties on the network. Therefore the opportunity to winning is a relationship based network that has the greatest responsiveness to demand.

3.3.10 Leagile

A leagile approach to supply chain is the alternative that seeks to balance the contradiction between the lean and agile supply chains. Proponents of the earlier two alternatives have suggested that lean can be adopted in some parts of the supply chain and agility can also be applied in the other parts. This is usually called the hybrid strategy. The most important consideration here is that the characteristics of demand are known. One of the leagile theories include the '*postponement strategy*' which was pioneered by the computer industry (Fernie and Sparks 2009, 128).

3.3.11 Private Label Merchandize

Big retailers are increasingly interested in Private Label Merchandise, which they aim to use to differentiate their offerings from those of their competitors and build a sustainable competitive advantage (Groeber, 2008). But according to Ganesan et al (2009, 84) retailers are going to be responsible for sourcing problems that are usually faced by the national brands. These national brands

usually receive the blames for defects in their products but the retailer risks swapping roles with the national brands with their increasing involvement in private label merchandizing. British retailers like Costco, Tesco and Safeway have had partnership to increase their involvement in private labeling. Increased profit is the sole reason for retailers' involvement in private labeling by sourcing new products to customer specification. (Groeber, 2008.)

3.4 Pricing Strategies

The competition amongst retailers can be a very stiff one and creating a winning strategy can be a hard nut to crack. 'Pricing is the only factor in the marketing mix that produces revenue. Others like product, place, and promotion are cost driven (Developing Pricing Strategy). The philosophy behind pricing is simple. When the price of a commodity is high, it brings fewer sales and when the price is low, it reduces profit. Finding the right price for an item is central to the success of a business. More often than none, businesses have failed because they could not articulate the right strategies when fixing prices. It is said that if a business gains customers because of price, the chances of losing them because of price is higher (Developing Pricing Strategy).

Perhaps the first place to look at when finding a product price range is the concept of Break-even. This is an economic tool that shows the relationship between costs and the amount of sales that is required to recoup the investment in the business. A business can usually use it as an insight to pricing for the business. It is often calculated by Fixed Cost / (Selling Price per unit - Variable Cost). By simple tweaking, an ideal price that will balance the costs and revenue could be realized. Using this formula is easy if two things are known, the cost of the goods/product (manufacturing costs) and the operating cost/expenses (logistics costs, rent, water, telephone, wages, adverts, office supplies and insurance).

The addition of these two costs make-up the total costs of the product and a retail price should always be above the total cost for the business to be

sustainable. Of course, the pricing choice must align with the overall strategy of the business. Business strategies usually come from the marketing perspective which is largely connected to price. These marketing processes or strategic positions are explained further in the next headings.

Cost Leadership

This is a marketing strategy that allows businesses to sells standardized products at the lowest possible prices compared to their competitors. This means there is relatively low or no degree of differentiation and the product is acceptable by the customers. Big retail companies like Wal-Mart have used this strategy in their operation over the year and has worked well for them. Companies that want to focus on price reduction must look into minimizing cost of sales, invest in manufacturing technologies, use lean approach to production and overhead costs and effectively tighten loopholes in its value chain to improve costs. This includes simplifying processes, reducing cost, relationship building, achieving efficiency and effectiveness (Cost Leadership Strategy)

Product Differentiation

This is the opposite of cost-leadership. The product can sometime be called customization. That is the features on the product are largely different from similar products in the market. The uniqueness in cost-differentiation can be seen from its price. They are high end products and are targeted at the upper middle class of the society. The advantage of this strategy is that it gives the producer more pricing power over the commodity without customers raising many eyebrows over price. One of the most distinguished reasons for product differentiation is to avoid a storm in price competition with competitors.

Market Segmentation

Segmentation allows businesses to identify the most potential customers available in a market and positioning the business to serve this subset of customers. It is also called the focus strategy because it pays attention to only a portion of focus market. The bases of segmentation include geographic segmentation, demographic segmentation, psychological segmentation and behavioural segmentation. The requirements for market segmentation are

measurability, accessibility, substantial unique, durable. (Market Segmentation.)

There are many factors that affect pricing decisions. The merchandize in question is a good way to start looking at the price to charge for the product. If demand for a product is high, there is always a chance to charge a higher amount provided there is no real competition for the same product. But in the case of fierce competition, even when demand is high, raising prices could be detrimental to the business as customers will not hesitate to go to the next seller. This is an obvious case of laws of demand and supply. Price elasticity is also a key factor, because some products are sensitive to price increase while some are not.

Promotion during seasonal periods often comes with a lot of markdowns on prices mostly to promote the business. Another reason for this is to sell old merchandizes especially before they are becoming outdated. The Location of a store remains a strategic part of the pricing policy of the business. A business that is located in a higher class neighborhood can afford to raise its price and still not affect the willingness to buy of the residence in that neighborhood. Image of the store can particularly be looked at from the strategic position of the company. Prices will be seriously linked with their perception to the public. A company known for good quality and in the higher end of the business would want to make sure she maintains her prices because that is what she is known for.

Many government regulations provide a level playing field for competitors in price systems. These bureaucracies are needed to give equal opportunities for prosperity in business. They can range from price fixing, deceptive pricing and price discriminations. The level of customer service is directly proportional to the operating cost of the business. This is a management challenge in keeping service high and price minimal at the same time. Achieving this balance is important for the company sustainability.

3.4.1 Pricing Methods

Having examined the factors influencing pricing decisions above, there are pricing methods that can help maintain competitive edge in various market positioning. Cost Based Pricing is arrived at after the cost of goods and the fixed costs are known, the mark up percentage is added to the product and that serves as the selling price. This method is simple as long as the costs involved are calculated correctly. The downside to it is that, it does not take into account the demand for the product and also the competitors' prices. On the other hand, Demand Based Pricing is set on the basis of demand expected. It usually takes into consideration the acceptable price for the intended target market. (Allen.)

Competition Based Pricing incites the myth that few businesses fail from over pricing and many businesses fail from underpricing. Competition based pricing is achieved by optimizing price for the product. The key here is to keep price at record level from the fluctuating prices of the competitors. Price optimization is done by knowing the users perception of the item, knowing the target market and knowing the products competitive advantage. (Developing Pricing Strategy.) Price Skimming is when a seller perceives monopoly, he charges high price for new products. The high price is not sustainable because competitors will want to bring down the cost. In this case the seller quickly reduces the price of the product to retain a chunk of the market share. The idea of Penetrating price is in contrast to the skimming strategy. A new product is introduced to the market and priced low in order to gain market share. As demand increases, the price is raised. This is especially good to fend off competition and can even help take away customers from market leaders. Other price adjustment strategies include discounts, product bundling and dynamic pricing.

3.4.2 Specific Retail Pricing Strategies

Fixing selling price for a retail business is much straight forward literally than manufacturing for instance. Identifying cost data in retail businesses are more closely linked to the logistics operations. Retailers have since been able to

have more options in adjusting their prices with their involvement further up the value chain. Taking charge of their own transportation creates more pricing options. Retail pricing strategies include but cannot be limited to mark up price on cost and vendor pricing.

Mark-up Pricing

Mark-up price on cost is simply adding industry standard profit margins to the cost of the goods. Meanwhile, mark-up on retail is derived by dividing the dollar markup by retail (Retailing Pricing Strategy).This is a percentage added to the cost to get the retail selling price. A general advice is to keep the mark-up high enough to provide for situations of discounts, shrinkage or other unforeseen expenses so as to make the business viable in the long run. It is not impossible for retailers to use different mark-ups on different product lines.

Vendor Pricing

Sometimes prices are set by the manufacturer and the retailers must adhere to these pricing structures. Such prices, manufacturer Suggested Retail Price (MSRP) is often adopted by smaller retailers to avoid pricing wars. It is possible for some suppliers to have minimum advertised prices (*retailers cannot sell below these prices*). This usually ties the retailer in price decision making which can hamper competitive advantage. Competitive Pricing involved prices that retailers set to win customers depending on their price reference. Having a niche might be a good thing with this strategy. These niches can be any of the marketing processes discussed above. They are Differentiation, Cost Leadership and Focus Strategy. Retail prices are psychological when prices are set at a level that customer perceives to be fair. They are usually done by odd pricing. For instance, a product sold at 9.95 euros could be round off by a customer as 9 euros.

4. SMALL BUSINESS

Finding the definition for a small business can be a vexed question. This is because a small business varies in meaning by country and industry. As a general definition, 'it is usually a firm of a certain size which falls below some

certain criteria. These criteria differ by countries regulatory bodies but they include annual turnover, number of employees, and total value of assets. (Business dictionary.) In the U.S.A small businesses are considered to be of 500 and fewer employees, 50 employees in the EU, and 15 employees in Australia. These numbers also can increase significantly when SMEs' are the focus. These kinds of businesses can range from hairdressers, moms and pops, tradesmen, accounting firms, lawyers' chambers etc. The perception of small businesses across various regions in the world is infinite. The SMEs are also viewed as small businesses to some people but it all depends on the factors to be considered in each case.

When an idea is ripe enough to start a small business, the next thing that usually spring up to mind is the capital involved. Finding the source of funding a business, however big or small, is not usually far-fetched. But actually securing those funds can prove arduous for the business owner. Usually, the first place to look at is the personal savings of the concept owner. Other sources include family and friends, debt financing, equity share, grants, angel investors, venture capitalists, strategic investors.

4.1 Financing Small Business

Personal savings perhaps is the first place to look when an idea starts to loom. Every prospective entrepreneur would have to measure up his personal account. With that he can have the firsthand knowledge if he is capable of financing the business all by himself or not. This is usually not the case as most business ideas can be capital intensive to start. Initial costs to be incurred can include office space, business development cost, intellectual property rights e.g. trademarks, patents. There is a big advantage in investing 100% personal funds in a business as there comes with it full control and ownership. With that said, it also involves risks of investing one's entire fortune in a business that is not ascertained profitable. When the option of personal funding is exhausted, the next option for funding is from close relatives and friends. These people are the ones who encourage one to go into business especially when there is a huge potential involved. They are

willing to help out of emotion that they can benefit from the success of the business in future. The good side to it is that their funds come with little or no interests to the borrower. Yet, all their funding might not be able to support the fund raiser as they also have responsibilities to attend to financially. Usually if a business fails, they might in turn forget about their lending as they were aware the business is just a trial and might go either way.

Securing investment from the banks can be a huge plus. But apart from having the biggest money to give out, there are always many hurdles to scale for anybody who is ready to seek loans from them. Banks are known for giving out loans to people but with a very great price as well. They have interest rates charged on every penny they lend as well as requesting for collaterals to serve as loan guarantees. Before a borrower can secure a bank loan, they usually have to be credit worthy. This means that their credit history is good enough to consider them for a loan. But if that is not cleared up, there is little or no chance that a person can get a loan with a bad credit history. Bank loans usually come in the form of Business loans and consumer loans (Funding Sources).

Business loans are specifically lent out to borrowers who are willing and ready to start up a business. This is also the hardest type of loan to secure from the bank. There has to be loan guarantees in form of collaterals, guarantors, etc. These guarantees are used as a way to protect the banks money in times of financial hardship from the borrower. They also come with an interest which increases if the borrower does not pay back on time. There is a possibility that the bank will ask the borrower to pay back the full money at any time if they find out the business is going to hit the rocks. Consumer loans are those that are secured from the bank for personal reasons and have to be paid back over a period of time. These include car loans, mortgages, equity loans and so on. They are much more easily secured from the bank than business loans provided the borrower has a good credit history. Finances from consumer loans can be diverted into business, which is not a bank restriction as long as the loanee pays back as agreed to the bank. But according to SCORE, a consumer loan diverted into a business loan is considered an act of fraud if the bank finds out.

Another way to secure a bank loan is a bank overdraft, which is a short term fund that is specifically given to small business owners. There is an initial agreement between the two parties to allow the account holder to withdraw funds until the balance goes below zero and the bank charges interest rates. The amount that can be overdrawn should be within the limit agreed to by the bank and the borrower. There is also a possibility of higher interest rate if the withdrawn amount exceeds the agreed limit. Some people also believe in angels that put money in businesses with the aim of receiving a return on their investment. Angel investors are professional investors who are willing to invest their money in other businesses than their own. They are ready to receive returns from the borrower in terms of company share or repayment of loan. They can be one's neighbor, classmate, friend etc. They are people who usually have made successes through starting up businesses and selling them. Thus, they have some level of expertise in owning and running a business. They now want to invest their money and not 'really own' a business. Yet, they gain some form of control in the business they invest in depending on the percentage of share agreed upon by both parties. Their level of investment cannot be ascertained but opinions have it that their investment range is not mostly higher than those of a venture capitalist. They are best known through networking.

A venture capitalist is known to invest a lot of money in business that is running with proven track record and shows a growth potential of 20% a year (Funding Sources). Their main aim is to own a part of the company and not give loan per se and they also want some form of control at the top management level of the company. Securing funds from them can be difficult as they are very hard to convince on business plans because of their level of experience. But anyone who is able to get funds from them can benefit from their networking opportunities that can also help drive the growth of the business. Some governments also participate in giving out loans to ideas with potential for growth. One of these is the United States Small Business Administration, which supports, aids, counsels and protects small businesses. This also includes several loan programs for small businesses. The YouWin initiative by the Nigerian government is also to support the ideas of citizens in

order to groom small and medium scale businesses that will help create jobs for the populace.

4.2 Small Business Challenges and Characteristics

Starting a small business can come with a great deal of enthusiasm. The gush of an idea seems to keep the adrenalin pumping which is a good thing. Inexperienced entrepreneurs have always found themselves at the receiving end of the problems that plague small business without adequate planning in place. Starting a small scale business is fraught with many obstacles that only the experienced and the extra-ordinary business can survive. The statistics are staggering. According to Ian Juul (2011), small businesses have unique characteristics. Usually, they are startups by entrepreneurs who want to work for themselves. Those characteristics will be expanded more in the next headings.

Entrepreneurial Spirit

The business dictionary defined entrepreneurship as the 'capacity and willingness to undertake conception, organization and management for a productive venture with all attendant risks while seeking profit as a reward'. Entrepreneurs usually have unique qualities like uniqueness, motivation, desire, taking risks and the required energy. All these are drivers to make a successful business.

Management Skills

Usually, most small business owners do not possess the much needed management skills. They are usually good at something. This is because managing a company across the cross functional areas of management including finance, marketing, production, etc. can be too much for a single person to know it all. These businesses are often carried away with the 'Entrepreneurial Myth' which means that the person who knows much about the technical things will be in a better position to run the business. They often forget about the contribution of management skills in making the right decisions.

Limited Funding

As explained earlier, small businesses have their number one obstacle in funding. This in particular is the sole determination of what is and what is not a small business. Funding sources for small businesses have been discussed above.

High Failure Rate

Also the figures from this trait are alarming. Small business failure is common and usually seems like something to be expected. This can be as a result of all the factors explained above. If any one of these qualities is lacking, the business is more likely to hit the rock.

Personal Reward

If a business owner manages to grow his business, then the reward is usually personal. This has some financial and psychological advantages to it. There is the freedom to make decisions without consultation amongst others.

Limited Technology

According to Isidro, a study by Arthur Andersen titled '*Survey of Small and Mid-Sized Businesses: Trends for 2000'* reveals that small businesses consider the use of e-commerce as a recipe for growth. However, they have not been able to do so because of the rapid changes in technology as well as the cost of implementing it.

Retaining Qualified Staff

It is not difficult to see why small businesses would find it difficult to convince competent staff to stay at the company. Many multinationals are ready to lure talents with prices that match their skills, which small businesses cannot afford.

Government Bureaucracy

Government red tape surrounding business environments can be a challenging thing for small businesses. In a survey by the Sage Business Index (2011) amongst 9 countries shows red tape by government is the most challenging situation facing at least 8 of those countries. They include

Germany, Austria, Spain, U.K, U.S.A, South Africa, Singapore, France and Canada, out of which only the U.S.A and Spain feel the government handling of the economic situation is affecting their business.

5. CURRENT STATE ANALYSIS AT ZAIKI INVESTMENT

Zaiki investment is a small business according to all standards of definition. This is because it has a single owner, who also runs the business. It can be described as a typical neighbourhood business, also referred to as moms and pops. The business strategy is very traditional, meaning that the mode of operation is carried out with little or no strategic focus. The underlying idea is to make profit in the business using whatever markup price that will achieve this aim. This is a contradictory approach to the industry standards if medium and large companies were considered.

Small business owners are largely plagued with challenges that may easily take them out of business especially when they are not well grounded with the opportunities that can prosper their business. According to Knaup (2005, 51) only 66% percent of businesses in the U.S manage to survive their first 2 years of operation. A literal comparison of this statistics to what we see and hear often, one can conclude that this trend is not particular only to the U.S. It often turns out to be a normal occurrence. However, it should be noted that some countries enjoy access to government subsidies, which helps prolong their operability.

The current state analysis of this thesis focuses on the supply chain aspect of the business with an emphasis on the challenges and future potential for better operability.

5.1 Supply Chain in Zaiki Investment Oy

Zaiki Investment sells African groceries in Haapaniemenkatu in Helsinki. According to the C.E.O, in businesses like this, it is important to have trading partners already at the start of the business. The company already had

suppliers as well as a logistics provider when the business opened in 2005. All of the company products are ordered from other European countries mostly from the U.K., Belgium and the Netherlands. The suppliers from these countries are big retailers because of the large numbers of African residents there. The European free trade zone could be seen as a benefit to Zaiki Investment. But for a small business like Zaiki, it is not feasible to ship directly from Africa because of the disadvantage of economies of scale. This is partly due to the small population of Africans in Finland and also competition amongst retailers in the region. There are no standard ordering systems available. A phone call or email is used when new products are needed. Orders are compiled individually based on depletion. The suppliers are the ones who also take charge of the transportation to ship directly to the store in Haapaniemenkatu. The standard shipping time is 3-4 days according to the owner.

When products arrive at the store in Helsinki, the majority of the products are kept in the warehouse, which is a rented place close to the store. The main reason for this is the lack of space for the pallets in the store area. This reflects a typical retail approach for small businesses. The tools and strategies being targeted to SMEs and large companies are clearly absent in this case. There is almost no technological implementation in the whole activities of this company. There is no guard against shelf theft, no simple barcode application or other ordering information systems. These are a result of all the challenges discussed below.

5.2 Identified Problems

The challenges plaguing the case company can be generic of all small businesses but there are also some other developments in Zaiki investment which makes the analysis of this section a difficult task. The extent to which the company continues to face these problems depends on its level of awareness and acceptance of profitable small business ethics.

All the identified problems and recommendations that are described below have been obtained through interviewing the owner of the business as well as

my observations during my training period. It was not easy to get other empirical facts for this thesis because mostly they were not needed or could not be gotten anyway from the owner preferring to keep those facts to the company. Explained below are some of the challenges facing Zaiki Investment Oy.

Low Enthusiasm

The business was established probably as an activity facility rather than an entrepreneurial venture that seeks to multiply profits. During one of my discussions with the owner, he said that after working in the Finnish civil service for about 35 years, he started the business so that his early retirement periods would not grind him due to inactivity. He is not ready to enter into competition. With this kind of mind set, it is difficult to take a business to the next stage. This is in particular a deviation from the entrepreneurship mindset that prospers a business to the next level.

Of course, retail business is one of the most challenging businesses that exists in the world today, but then, it is important to be able to compete for price and customers respectively, there has to be some level of seriousness to how one approaches these challenges to make the business profitable

Lack of Funding

The company has not too much funds to expand activities over its current stage at least to upstage its competitors. This is similar to all small businesses. Most of them might be interested in expanding their businesses if there is an opportunity for more funding. As a retiree, the owner does not have much aggressiveness to seek for more external funding unlike so many young entrepreneurs. This is one of the banes of improving the business in terms size and operation. Supply chain infrastructure is expensive and there is only a certain level of business operation that can afford to obtain vertical integration advantages in their business. The strategies that will also be put in place business wise might require some funding, which in this case can be a difficult proposition.

Business Practice

For an owner who has been working in the medical field most of his life, it will not be any surprise that succeeding in the retail business will not come easy. Considering also his age, it is difficult to see that the actual learning curve for him in the retail industry is near impossible. Although, if he is still willing to make an empire out of the business, it is never too late to tow the right track. Like a lot of small businesses, he does not have the strategic foresight that is being exhibited by most large organizations. There is little attention paid to planning, which is the most important aspect of the business.

It is very important for him as a retail business owner to have an adequate knowledge of the subject of supply chain if he is ever going to make a competitive profit from his business operations. This is because of the huge cost benefits that can be obtained along the supply chain, which is a strategic area for a commodity business in addition to mark up margins.

Large Retailer Bullying

Zaiki Investment is located at the end of the street on Haapaniemenkatu in Hakaniemi, where most of his competitors also ply their trades. According to my observations, it is the smallest in size in the region and with that location at the extreme end of the competing region faced adjacent to the adjoining street, he faces an uphill task in drawing customers to his business. His competitors are medium sized stores that compete intensely amongst each other in that area. These stores can also gain advantage in combining inter-racial products, in their store, making it look more like a mini mart rather than a mom and pop, which Zaiki investment is.

From this it is easy to conclude that, Zaiki Investment suffers from bullying from these larger stores, who are always entering into his product market. They have a price advantage as well, which makes it easier to entice customers to their stores, although with sound business principles, strategists have suggested that 'it is not the big that eats the small, it is the fast that eats the slow' (Jennings and Haughton 2002). Competition like this is what fosters growth in businesses and makes managers to think out of the box in other to bring ideas that can spur their businesses onto the next stage. Also, it is

enough to say retail businesses are shielded from the patient issues that sprout amongst manufacturing or innovation companies for instance.

Lack of Pricing Power

Zaiki investment is a small company which services only a tiny portion of the population of Finland. One of the few ways for businesses to have more cost advantages is to have significant access to price. Suppliers often give preference to bigger customers who give those economies of scale in terms of sales, and with that they can increase their own turnover over their accounting period, which translates into more business activities and profits.

Perhaps, this is mostly one of the supply chain challenges of small businesses. They order in smaller quantities than their larger counterparts therefore not giving them a negotiating power. This is a very big hurdle for any business to cross if it aims to reduce operating costs. Only businesses that show potential for growth can be given a chance to the so called 'discriminative pricing' methods often used by businesses.

Technology

On entering into the Zaiki investment store, the noticeable I.T. infrastructure is a camera used to monitor the activity around the shop. My discussion with the manager of the company showed that there is no real use for simple I.T. systems in the company as the company is too small to accommodate such an investment and the energy that goes with it. The owner described such stores with franchise activities like Lidl, Stockmann as the ones who necessarily require such technologies like Barcodes, RFID, POS machines etc. My argument was such that, even if the business does not require barcodes for automatic stock monitoring purposes, it could as well be used to prevent theft which camera cannot detect.

Orders are made by phone calls, emails and fax. The order list is compiled and conveyed to the suppliers when the items are big enough to make an order. This order making method is very inconsistent to the progress of a business that is avoiding stock out and in the process of losing customers.

This is because there are times when some items are omitted or in another way there are discrepancies in conveying the message to the suppliers.

Bureaucracy

Zaiki Investment is the only company in Helsinki that sells only African groceries with the owner's roots in Africa. The company leads the way in introducing basic African grocery into the Finnish market. Even though it tries to optimize the product variation in its store, there still occur some challenges in this regard. For instance, the Finnish law does not allow for a reduced tax on the importation of beer products, which carry a 100% import duty and a 23% pre-tax unlike most other products in the store. According to Samson Osazie, that product line would have been a winner for his business considering the fact that other competing stores do not carry the license that permits them to sell alcoholic products.

Supplier Reliability

One imminent problem the company faces is from suppliers. They have been unreliable sometimes, and the way they operate has made the company have many alternative suppliers, which the owner could not take count of. These suppliers are dispersed in the U.K., Belgium and the Netherlands. Sometimes, the orders are also not dispatched on time making there delays in the expected time of arrival of the products. This unreliability of suppliers can be very costly to the business, as I have witnessed during my duration at the store, because there are many times when customers are turned down because products are not available. In an ideal business situation, taking account of the non-availability of shelf products and lost customers will definitely show a reduced profit margin for the business. The customers in this situation will locate a competing store that meets their need and has then won them over.

Transportation

Transportation is one of the supply chain activities where businesses identify cost saving potentials. Zaiki Investment is operating a business that has no impact on its transportation activities. It was alarming to hear from the owner that he has no knowledge of the transportation companies as he has

absolutely no interest in that aspect of the business. A company that does not have on hand the impact of transportation cost on its activities has little or no chance to survive in the competitive environment. Taking account of the cost of transportation is vital to the overall strategic position of a company. It allows the business to review costs regularly with transportation providers, when it finds ways to reduce cost on the business. For this thesis purpose, it was difficult to identify the transportation providers since the company does not engage activity with any directly.

5.3 Improvements

My research on the business of Zaiki Investment shows that there is a lot of education that is needed to be presented to the management of the company. Even though I had very good interviews and discussions with the owner about the company operations and strategy, I still found out that it was difficult trying to change the owner's perceptions of handling the business. The challenge was even greater with regard to trying to identify any real problem from the business with the CEO seemingly acknowledging the fact that he faces no challenges from his business.

Nevertheless, this work has been able to draw up some improvements to the business which will definitely shift the company's competitiveness from rock bottom to a pace setter position, if these recommendations are carefully considered. These improvements are discussed in more detail below.

Entrepreneurial Mindset

Perhaps the most important part of this recommendation is to see how the owner can change his mindset from that of a retired civil servant to that of an entrepreneur. During my times at the company, even though I learnt some things there, it still was difficult to convey some simple practices learnt from my studies and research to him, as he was not ready to make his approach to the business an aggressive one. There is no way an organization can turn a blind eye to the opportunities surrounding its business if it ever wants to position itself viably. So my position here was to make the business owner to

rethink his strategy on the business and take advantage of the opportunities that can come from it.

Taking advantage of supply chain management requires that the company's strategic focus aligns with the supply chain design implemented. As the business is only dealing with functional products, the supply chain should be designed such that it emphasizes on operational effectiveness, cost reduction and reduction in inventory. But in this particular case, adopting a design was complicated as the strategy of the business is unknown.

Deployment of Information Technology

The rate at which information technology is evolving at this present time has made it nearly impossible for a business with growth in mind to totally neglect the benefits that can be derived from it. Having explained above the problems facing Zaiki Investment with respect to technology, this thesis proposes that there should be at least some of the basic IT infrastructure in place in order to make operations effective and efficient. Firstly, it was alarming to see that there is no basic POS machine in place that can make checking out of products easy, and eventually allowing an automatic stock taking action. A company that is singly run will benefit from the use of such devices, so that activities like manual stock takings should be eliminated in the business process except for when it is necessary to do so.

Additionally, simple implementation of barcode helps to prevent shoplifters from carrying out their activities. Barcodes have been a must for most businesses that want to improve their operations, but nevertheless, many of these small grocery shops still pay little cognizance to the advantages of using them because of the cost that it consumes at first. The ordering system in place at Zaiki is also a very obsolete way of making transactions in the 21st century. Orders are made through phone calls and emails even when they do convey the message intended are full of errors sometimes. And this is one aspect of the logistics function that large enterprises have been able to correct in order to achieve maximum efficiency. One of the problems that can happen with phone ordering is the wrong interpretation of the transmitted and received message. Also the risk of sending orders in batches is very substandard at

best, especially when dealing with bigger suppliers. This kind of action will allow them to give minimum preference to such businesses.

Perhaps, taking advantage of process innovation, for instance in the area of online updates, could be a way of enlarging the customer base. At present, it is difficult to take a side on whether online buying will improve the business or prove to be just a flop. But a practical approach would be, to put suggestions of what these specific groups would like to buy from the shop periodically, and in cases where there is a huge interest in a particular product, steps are taken to bring such items on shelf.

Supplier Reliability

As described above, the identified problem with the suppliers could be linked to the size of the business as well as the unprofessionalism on the part of Zaiki Investment Oy. For a business practice involving suppliers, a strict business ethic should be enforced at the same time maintaining a cordial relationship. The company should improve the level of professional practice when dealing with suppliers; this will allow the suppliers to take their orders seriously. One way to improve this is to improve the ordering system in place by using an industry standard particularly when dealing with bigger suppliers. This is because, it will be difficult for suppliers who are using real time inventory data from their customers to adjust to orders made by phone calls or emails.

There are small business suites that can handle these kinds of integrated logistics functions. An example is the Sofware as a Service (SaaS). However, the type of technology that will work in this situation depends on how far the supplier is willing to go to adopt this relationship practice.

Inventory Management

Even though the number of SKUs in the business is low due to the company size, there can still be standard methods that will make ensure efficiency in inventory. In Zaiki Investment Oy, there is a need to transition from the manual stock taking activity to a more information centered inventory feasibility. This means utilizing a POS system to give real time information of the stock level of

each SKU and also using an EDI to manage order information with the supplier. A simple implementation of this practice shows to the supplier that the customer is a serious minded business outfit.

If this phase of implementation is made possible, the next thing to do is ensure an ordering system in place. The order should be viewed in real time from the suppliers outfit. There should be a demand management system in place that ensures accurate ordering of different class of products. An ABC analysis could be adopted in this way, where A products are the high selling goods of at least 80% of the products having a 100% stock replenishment, B products are 15% of the total SKU on an 80 % stock replenishment and finally C products which are 5% of the SKU on an agreed % replenishment basis. This type of demand management system will not allow for any discrepancy in the information from the supplier and in what is delivered to the customer.

Formation of a Buying Group and Improving Supply Chain Design.

From a pure competitive angle, buying groups are not supposed to be an option. But in contrast to extreme competition, in a region like Hakaniemi, where there are many small businesses as well as medium sized companies competing for the same customers, thereby sparkling price wars. If Zaiki Investment Oy could liaise with similar sized businesses to be able to purchase more in order to increase their economies of both scope and scale and as well improve their price bargain from the suppliers. This is a good way to fight the strong forces of bigger retailers in the region. This is a pure purchasing strategy to improve the cost impact on the business. And while this is carried out, it has a direct impact on the supply chain design of the companies involved. In this way, they can choose to purchase the goods from Africa, while taking charge of their own logistics, probably utilizing a Full Container Load to maximize transportation costs. With this strategic focus, a company like Zaiki would have hands on knowledge of the overall transportation cost of each SKU coming into the company warehouse.

Finding Better Niche

Zaiki Investment Oy is one of the few African focused grocery stores in the Hakaniemi region. This is a huge advantage for the company. Even though

other businesses owned by some Asians are also going into the sales of African groceries, they do not have firsthand information on the demand of Africans in Finland. They are in the business just to bully the small business outfits. They do so by engaging in spy activities. Zaiki Investment has rejected some pretentious customers who have come to act as spies for these larger retail businesses. One way Zaiki Investment Oy can take advantage of its African niche is to introduce the highly demanded Guinness beer and other alcoholic drinks onto its shelf. However, this has not been possible on reasons the owner sighted as a 100% excise duty on the products with a 23% pre-tax. But this thesis still suggests that for the fact that no other similar business in the region has the alcohol sales right that Zaiki Investment Oy possesses, it can take advantage of these kinds of niche businesses while winning customers for its other products.

It is the opinion of the writer that the recommendations explained above are all of utmost relevance to position the company competitively. The most important of all should be a change in chairman's approach to the company. Handling of the business from a competitive point of view so as to create a more serious environment in terms of price, merchandise, customers and expansion. Implementation of technology in a Logistics centric business is almost inevitable. For any business to be taken in earnest it has to show some level of practices that are globally acceptable and the use of IT is not an exception. Ordinarily, bigger suppliers would not want a partnership with smaller outfits but if a small company uses standard procedures, there can be a room for compromises. Choosing suppliers that are reliable can also play an important role in improving business operation. Even large corporations do not take suppliers issues with light hand. Forming of the buying group is a strategic approach to the business that can reduce purchasing cost through the supply chain while also allowing the company to implement supply chain design since purchases are made in large amount. The company needs to diversify on its merchandise sourcing. For instance, a simple need analysis of customers or of new potential target group should be done from time to time to allow the company capture new customers with its new product introduction.

5.4 Discussion

There is no doubt that significant gains can be made from implementing supply chain management for small and medium sized enterprises. The attainability of these cost gains can be dependent on the strategies adopted by the firm. Arend and Wisner, in their empirical research on supply chain management and small business, claim that they have only a poor fit. Many reasons they explain are because 1) SMEs implementation of Supply Chain Management (SCM) is half baked, 2) SMEs do not use SCM to complement strategic focus, 3) SMEs are not freely choosing to pursue SCM. (2004, 1.) However, their research work was purely based on manufacturing firms, which is in total contrast to the theme of this thesis.

Supply chain management is a way of obtaining vertical integration benefits without its formal ownership costs (Arend and Wisner 2005, 403). This means companies will be able to focus on their core activities and use partnerships along the chain to reduce costs. Nevertheless, Jackquinn solutions claim that through proper alignment and synchronization, proper benefits can be reaped from carrying out SCM for firms of any size. SMEs that adopt supply chain management are more likely to have good performances than those that chose not to (Arend and Wisner 2004, 2). This leads to the question of what size of business can attempt to implement supply chain management effectively? This is a question that requires a lot of insight and must be attended to by prospective entrepreneurs in order to identify their potential loss or gain by implementing vertical supply chain management, which is heavily technology centric.

The two most important supply chain technologies include, the resource planning systems which are used for the daily operation of the business and supply chain. They help managers to plan, control and record day to day activities. They provide real time information along the supply chain. The track both information and movement of materials along the supply chain. Data gotten from these activities can be used by managers to make decisions and improve efficiency. Supply chain analytics systems are used to support resource planning systems, which allows managers to make effective

decisions on supply management, supply chain management and customer relationship management.

In the past, adoption of basic IT (computer, software & POS machine) by small businesses has been slow. This is heavily linked to the level of exposure of the small business owner to computer usage. The take-up rate of information technology especially in the ordering and stock control has been necessitated by the suppliers (large wholesalers) of these small retailers and also the awareness of the retailer of the benefits of IT for strategic management and performance. (Kirby, Turner and Martin 1993, 1–4.)

Today, most business owners are more aware of the importance of these technologies in their activities especially in the areas of inventory control, accounting, order making, security etc. For these reasons, even the smallest retailers have been seen to have a basic computer, POS machines (basic functions) and product identification devices like RFID or Barcodes. The level of technology adopted by different retailers depends greatly on the amount of annual turnover and daily activities.

For this reason, the author has decided to propound a simple grid that shows the relationship between supply chain and small retail businesses in order of their suitability. Factors to be considered in this analysis will include the business size, financial strength and supply chain alignment.

TABLE 1. Small business and supply chain feasibility

Business Size	Financial Strength	Vertical Supply Chain
Ultra Small (< 5 employees)	0–100.000 euros	Very Difficult
Moderately Small (<20 employees)	100.000–200.000 euros	Difficult
Small (< 30 employees)	200.000–500.000 euros	Moderately difficult

Note*: The estimations above are of the personal opinion of the author and can be challenged.

Advances in technology have made implementation of supply chain, especially in forecasting a whole lot easier. Now that we have seen many reasons why proper supply chain implementation is difficult for the small retail businesses, Marulanda (2010) reports Schuenherr (2009) further advancement in the cloud technology, which leads to the development of SaaS (Software as a Service), which may be targeted to smaller businesses that have traditionally not been integrated into the supply chain.

5.5 Conclusion

Zaiki Investment is a representative of a small business in every sense; it suffers from the problems often found in small businesses, in funding, management, IT, etc. Through many years of studies, consultancy companies and service providers have been helping small businesses grow by providing them with adequate knowledge of profitable business practices as well as providing the necessary infrastructures that can suit a small business for instance Transportation Management Systems, Inventory Management, accounting packages – and even the use of the simple Barcodes has been made easier. Taking advantage of these opportunities, though, has always been at the disposal of these small businesses, many of them have only been reluctant of taking the next big step.

Small businesses generally do not have the bargaining power that larger companies have; this has been one of the reasons it has been difficult for them to take up supply chain management practices effectively. And for some of them, doing business with bigger suppliers can be negligible to the supplier. This has been the reason for their different approach to or inactivity witho supply chain management, thus, making them gain fewer cost benefits. However, a small business that shows a great potential could be given rebates by the trading partners with the hope that their operation gets bigger in the future. This style comes as a future benefit for the supplier as well.

The retail sector is very competitive, however devising means to monitor, analyze and set trends, is a very important tactical decision made by winning retailers. One of these trends is in taking charge of transportation from the

supplier's gate (factory gate pricing) but it can only be profitable for small retail businesses if they form a coalition with similar sized businesses to gain the advantage of economies of scale and scope. For the SME's the cost of employing the services of SCM consultants can be so high that they cannot dream of it.

This project work was carried out to study the retail supply chain and the small business. The whole body of the project has responded to the questions asked by the aim of the thesis particularly emphasizing the challenges and opportunities in relation to the case company. Other research possibilities from this thesis could be in the area of discussions on individual retail supply chain transformations as explained in this work.

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