

Research Article

An Investigation of Business Activities in Iran Retailing Industry

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Abstract: The aim of this study is deals with existing retail scenario in the country, government stand on this issue, problems faced by the small store owners and employment opportunities as well. Retailing industry has changed its face with the pace of change in the technology. The revolution in retail landscape is the major outcome of the fast growing Iranian economy. Iran presents a grand opportunity to the world. With the changing phase of retail the Iran consumer is in for a rapid transformation. We found that the retail scene in Iran is presently undergoing a sea change with emergence of scores of modern retailing malls, stores and multiplexes all over the country, which was earlier dominated by millions of small stores. This change is clear and visible not only in the large metropolitan cities, but is fast invading many class one and class two cities as well but Foreign Direct Investment, Infrastructure bottlenecks, availability of Retail space, Logistic, Manpower, Changing consumer dynamics are some issues that need to be dealt with seriously before Iran realizes its full potential in retail.

Keywords: Growth, opportunities, retail potential, sells, small store

INTRODUCTION

Retailing consists of the business activities involved in selling goods and services to consumers for their personal, family, or household use (Lars *et al.*, 2010) The word Retail is derived from the French word retailer, meaning to cut a piece off or to break bulk. A retailer is a person, agent, agency, company, or organization, which is instrumental in reaching the goods, merchandise, or services to the ultimate consumer (Baret *et al.*, 1999). Retailing is the last stage in the distribution process (Abernathy *et al.*, 2000). In contrast, wholesaling is an intermediate stage in the distribution process during which goods and services are not sold to final consumers but to business customers such as manufactures and retails-for their use in running the business or for resale to others (Davis *et al.*, 2006). Retailing today is at an interesting crossroads. On the one hand, retail sales are at their highest point in history. Wal-Mart is the first \$ 150 billion retailer (with annual worldwide revenues reaching that amount in 1999), (Sieling *et al.*, 2001). A retail revolution is sweeping through Iran. The sector witnessed significant transformation in the past-from small-unorganized families owned retail format to organized retailing. Over the last few years, retail has become one of the fastest growing sectors in the Iranian economy. Organized retail sector is expected to grow to 20-23% of Iranian retail industry in the next 14 years. (1404 prospect) There is chaotic activity in the sector in terms of expansion, entry of international brands and retailers as well as focus on technology, operations and

processes. All these present a tremendous opportunity in this new high growth industry (Miller, 2006). With the growth of malls, multiplexes and hyper markets, the consumer is being exposed to a new kind of shopping experiences and services which is quietly and surely redefining their expectations from shopping. Today consumers no longer think “expensive looking” means “expensive”. With retail ambience getting upgraded, clearly the neighborhoods Zanjireei store are becoming part of past for hypermarket consumers. Consumer is getting used to having option readily at hand when they step out to make final purchase decision without much dissonance, with growing time constraint and option. Customers are being encouraged to come back again and buy more by providing better services.

The objectives of this study are describing different concepts of Retailing in Iran and comparing of Iranian retail industry with others countries. In addition this study is going to show the challenges facing the Iranian organized retail sector and give some recommendation about them.

DIFFERENT CONCEPT OF RETAILING

Supermarket: These shops have relatively low cost, low margin high volume and self services operation and are designed to serve total need for food, laundry and household maintenance products.

Malls: Most malls give floor space out to individual shops on lease and these are enticed by the economies resulting from the sharing of costs.

Departmental stores: Departmental stores are expected to take over the apparel business from exclusive brand showrooms.

Specialty stores: Such stores have narrow product lines. There is high potential in this segment of organized retail, particularly on home furnishings and home improvements and it seems to attract many of the best and the brightest in the retail.

Branded stores: Exclusive showrooms run by premium brands have the catalysts in pushing up the Iranian retail scenario (Rosemary and Rafiq, 2007).

RETAILING IN IRAN

The Iranian cosmetics retail market still has traditional format (no discounters, a few specialized supermarkets and hypermarkets in just some of the cities) that characterized as both high vertical and horizontal concentration to response growing market share (Abolhasanpour *et al.*, 2011). Iranian retailers have been facing major changes in recent years. The old structure consisting of a very strong wholesale channel (known as the old Bazaar) and a huge number of independent small grocers is facing major challenges from emerging supermarkets/hypermarkets. These modern outlets are becoming very popular, especially in key urban areas and a change in consumer taste from old independent small grocers to modern grocery channels seems to be very obvious. Overall, report offers insight into key trends and developments driving the industry in Iran. The report examines all retail channels to provide sector insight. Channels include hypermarkets, supermarkets, discounters, convenience stores, mixed retailers, health and beauty retailers, clothing and footwear retailers, furniture and furnishing stores, DIY and hardware stores, durable goods retailers, leisure and personal goods retailers. Each year the Global Retail Development Index (GRDI) ranks international companies for retail expansion and development potential and opportunities. Find out which international retail markets offer the most to U.S. retail industry chains that are interested in expanding beyond North American borders and into foreign markets (Hammer, 2004). What follows is a list of the countries deemed by management consulting firm AT Kearney to be the best retail markets for international expansion. The number on the left is the ranking that the country was given, compared to a total of 30 countries that were evaluated in the 2011 GRDI and the Iran rank was 29. There are about 5 million retail outlets spread across Iran. More than 80% of these 5 million outlets are run by small family businesses, which use only household labor. Iran is moving toward growth and maturity in the retail sector at fast pace. Iran has emerged as most attractive destination for retailers.

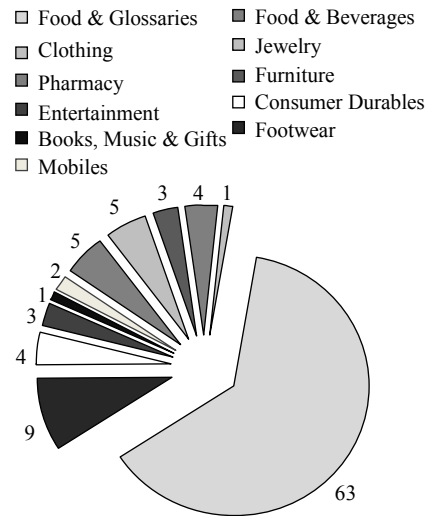


Fig. 1: Indicates category-wise share of organized retail in percentage

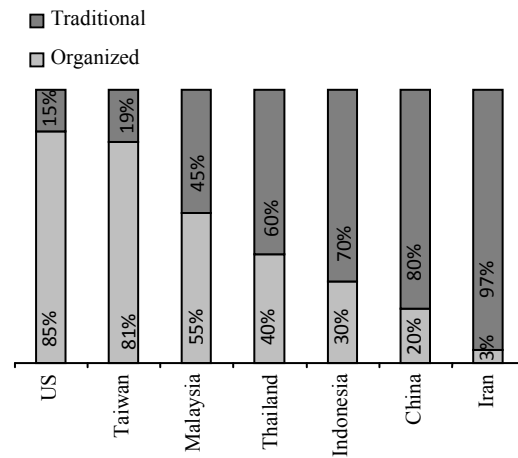


Fig. 2: Comparative penetration of organized retail in Iran and other countries

In fact, the latest AT Kearney study shows that Iran has potential market for international retail; Iran's largely rural population has also caught the eye of retailers looking for new areas of growth (Farfan, 2012). Retail growth in the coming 14 years is expected to be stronger than GDP growth, driven by changing lifestyles and by strong income growth, which in turn will be supported by favorable demographic patterns and the extent to which organized retailers succeed in reaching lower down the income scale to reach potential consumers towards the bottom of the consumer pyramid. Growing consumer credit will also help in boosting consumer demand.

Figure 1 and 2 show; what are selling the most at malls in Iran and also a Comparative data of organized and traditional retail in Iran with other countries.

CHALLENGES

The challenges facing the Iranian organized retail sector are various and these are stopping the Iranian retail industry from reaching its full potential. The structure of retailing will also develop rapidly. Shopping malls are becoming increasingly common in large cities. The number of department stores is growing much faster than overall retail, at an annual 37%. Supermarkets have been taking an increasing share of general food and grocery trade over the last two-decade. Availability of space will usher in the next level of competition as requirements of mall space for new players are bound to heighten the intensity of competition. Increased mall space will also attract new Iranian entrants. Availability of quality space has been one of the key deterrents for the advancement of modern retail format in Iran. Although Distribution continues to improve, but it still remains a major inefficiency. Poor quality of infrastructure, coupled with poor quality of the distribution sector, results in logistics costs that are very high as a proportion of GDP and Inventories, which have to be maintained at an unusually high level (Christopher, 2002; Fazio, 1999). Distribution and marketing is a huge cost in Iranian consumer markets. It's a lot easier to cut manufacturing costs than it is to cut distribution and marketing costs. FDI restriction in retail is hampering the growth of this industry in Iran. Trained manpower shortage is a challenge facing the organized retail sector in Iran. The Iranian retailers have difficulty in finding trained person and also have to pay more in order to retain them. This again brings down the Iranian retailers profit levels. The retail industry will have to face challenges in availability of man power especially in the middle and top level management, supply chain and branding. Therefore, success to a large extent depends on the positioning.

RECOMMENDATIONS

- Though Shoppers stop provides the best quality of merchandise but still people perceives their prices as highest so the store should be more focused towards their pricing strategy.
- Better co-ordination is needed between advertising and sales promotion in order to achieve better result.
- Usually Iranian customers are very price conscious, so sales promotion programme are to be develop taking this thing into consideration.
- Respondents have also suggested that, the proper signage should be used to communicate the customers about the loyalty schemes and there should be no hidden terms and conditions, which disappoints the customers at the point of sale.
- The store should include the right mix of the Quality and Inferior products, as the customers

who are young and earning fat salary packages attached higher value to this aspect.

CONCLUSION

In Iran the retail sector is one of the large sections, although it is highly fragmented and predominantly consists of small independent, owner – managed shops. The country is witnessing a period of boom in retail trade, mainly on account of a gradual increase in the disposable incomes of the middle and upper-middle class households. More and more corporate houses including large real estate companies are coming into the retail business, directly or indirectly, in the form of mall and shopping center builders and managers. New formats like super markets and large discount and department stores have started influencing the traditional looks of bookstores, furnishing stores and chemist shops. Iranian consumer's lifestyle and profile is evolving rapidly. Iran has one of the youngest populations in the world with 70% of the population below the age of 30. According to the figure, we can find that Iran country has more traditional market than several other countries which have shown in the Fig. 2. In attention to Figure 1 there is increasing shift from price consideration to design and quality, as there is greater focus on looking and feeling good in Iran retail industry. There is an easier acceptance of luxury and an increased willingness to experiment with mainstream fashion. This result is an increased tendency towards disposability and casting out from apparel to cars to mobile phones to consumer durables. Credit friendliness, drop in interest rates and easy availability of finance have changed mindsets. The four major organized retail sectors are Food and grocery, Clothing, consumer Durables and Books and Music. Food and Grocery contributes about 41% of private consumption expenditure and about 77% of total retail sales. However, this segment is largely controlled by unorganized small outlet sector–penetration of organized retail in this sector is 1%. This is one the reason for Iran's low organized retail penetration rate.

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