Chapter Objectives

To define retailing and show its importance
To discuss the different types of retailers, in terms of ownership, store strategy mix, and nonstore operations
To explore five major aspects of retail planning: store location, atmosphere, scrambled merchandising, the wheel of retailing, and technological advances
To examine recent trends in retailing

Chapter 16
Evans & Berman

The Domain of Retailing

- Retailing encompasses those business activities involved with the sale of goods and services to the final consumer for personal, family, or household use.
- Retailing is the final stage in a channel of distribution.
- Retailing functions are performed by any firm selling merchandise or providing services to the final consumer.

The Impact of Retailing on the Economy

- Annual U.S. retail store sales are $3.5 trillion.
- World’s top 100 retailers generate $1.8 trillion in total annual revenues and include firms from 17 nations.
- Wal-Mart, the world’s largest retailer, has total annual sales of $200 billion, with 4,200 stores including Sam’s Clubs and Wal-Mart’s.
- Bureau of Labor Statistics reports 23 million people are employed in 2.8 million U.S. retail establishments.

Key Retailing Functions

- Collect product assortments and offer them for sale
- Provide information
- Store products, mark prices, and pay for goods and services
- Conclude transactions with final consumers

Categorizing Retailers

- Method of Ownership:
  - Independent
  - Chain
  - Franchising
  - Leased Department

- Store Strategy Mix:
  - Convenience Store
  - Conventional Supermarket
  - Food-Based Superstore
  - Combination Store/Supercenter
  - Hypermarket
  - Specialty Store/Category Killer
  - Traditional Department
  - Full-line Discount Store
  - Membership Warehouse Club
  - Other Discounters

- Nonstore Operations:
  - Direct Marketing (including the Web)
  - Vending Machine
  - Direct Selling
Method of Ownership

Independent – Operates only one outlet and offers personal service, a convenient location, and close customer contact.

Chain – Involves common ownership of multiple outlets. It usually has central purchasing and decision making.

Franchising – An arrangement between a franchisor and a franchisee, which lets the latter run a business with an established name.

Leased Department – A section of a retail store rented to an outside party.

Store Strategy Mix (1)

Convenience Store – A well-situated, food-oriented store with long hours and a limited number of items.

Conventional Supermarket – A departmentalized food store with minimum annual sales of $2 million, emphasizing food and related products.

Food-Based Superstore – A diversified supermarket that sells a broad range of food and nonfood items (accounting for 20 to 25% of sales).

Combination Store/Supercenter/Hypermarket – Unites food/grocery and general merchandise sales in one facility, with nonfoods providing 25 to 40% of sales.

Specialty Store/Category Killer – Concentrates on one product category.

Store Strategy Mix (2)

Traditional Department Store – Has a great assortment of goods and services, offers many services, is a fashion leader, and is often an anchor store.

Full-Line Discount Store – A department store with lower prices, a broad assortment, lower rent, self-service, and the use of branded goods, shopping carts, etc.

Membership Warehouse Club – A format where final consumers and businesses pay yearly dues to shop in a huge, austere warehouse.

Other Discounters – Including warehouse-style food stores, off-price specialty chains, discount drug chains, and factory outlet stores.

Nonstore Operations

Direct Marketing – Occurs when a consumer is exposed to a good or service by personal, nonpersonal, or a combination of both mediums.

Vending Machine – Uses coin- or card-operated machinery to dispense goods or services.

Direct Selling – Involves personal contact in consumer homes (and other nonstore locations) and retailer-initiated phone solicitations.

Considerations in Retail Planning

- Store Location
- Atmosphere
- Scrambled Merchandising
- The Wheel of Retailing
- Technological Advances

Store Location

- Isolated Store
- Central Business District
- Secondary Business District
- Neighborhood Shopping Center
- Regional Shopping Center
- Community Center
- Unplanned Business District
- Planned Shopping Center
- Strip
- Neighborhood
- Shopping Center
Retail Atmosphere

- Atmosphere (also known as atmospherics) is the sum total of the physical attributes of a retailer, whether in a store or a nonstore format, that are used to develop an image and draw customers.
- It has four basic components:
  - Exterior
  - General Interior
  - Store Layout
  - Interior (Point-of-Purchase Displays)

Possible Retail Differential Advantages

- Store hours
- Delivery
- Product quality
- Credit/refund policy
- Assortments
- Brand merchandise
- Merchandise mix
- Degree of personal service
- Building design
- Store ambiance
- Status and pricing
- Amount and type of sales
- Store layout
- Special services
- Advertising policies
- Target markets

Selected Differential Advantages for Gap, Old Navy, and Limited Stores

- Located in high traffic malls, which reduces necessity for expensive advertising
- Expertise in researching, predicting, and delivering contemporary and unique fashions
- Use of extensive in-house promotions, good customer service, own credit, direct mail, and Web sites

Margin versus Merchandise Turnover

- Low margin and low turnover retailers will not generate adequate profit to survive.
- Low margin and high turnover retailers, such as discounters, can generate high profits.
- High margin and low turnover retailers, such as jewelry, furniture, and appliance stores, must carefully weigh costs.
- High margin and high turnover retailers, such as convenience stores and mall kiosks, may be able to withstand many competitive forces.

Common Issues to Consider in Retail Planning

- Ease of entry
- Easy to fail
- Diversity of alternatives
- Competitive nature
- Geographic concentrations
- Labor intensiveness
- Rapid turnover of employees
- Long hours
- Seasonal fluctuations
- Changing fashions
- Legal constraints
- Dynamic structure
- Volatile consumer markets
- Provides excellent employee training in basic work skills

The Self-Perpetuating Nature of Scrambled Merchandising

1. Supermarkets
   - Stock a full line of health and beauty aids to increase their profit margins.

2. Drugstores
   - Lose health and beauty aids sales. They scramble into greeting cards, stamps, postcards, magazines, and pots.

3. Stationary Stores
   - Lose sales in traditional lines. They scramble into gift items, toys, novelties, perfume, and inexpensive watches.

4. Gift Stores
   - Lose sales in traditional lines. They scramble into gum, candy, baked goods, deli gift packs, and paper goods for parties.
The Wheel of Retailing in Action (1)

High-End Strategy

Low End Strategy

The Wheel of Retailing in Action (2)

Prestige Department Stores (e.g., Neiman Marcus)

High-End Strategy

Traditional Department Stores (e.g., Dayton Hudson)

Low End Strategy

Full Line Discount Stores (e.g., Wal-Mart)

Newer Discounters (e.g., Priceline.com)

Levi’s: from Data to Denim

Retailer Customizes Jeans Orders

Levi’s: from Data to Denim

Length 32"

Sends Data from Sales Floor to Factory

From Data to Denim

Automated Data Goes to Cutting Room

From Data to Denim

Customization Includes Universal Product Code for Routing and Shipping
Chapter Summary

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- It examines recent trends in retailing.