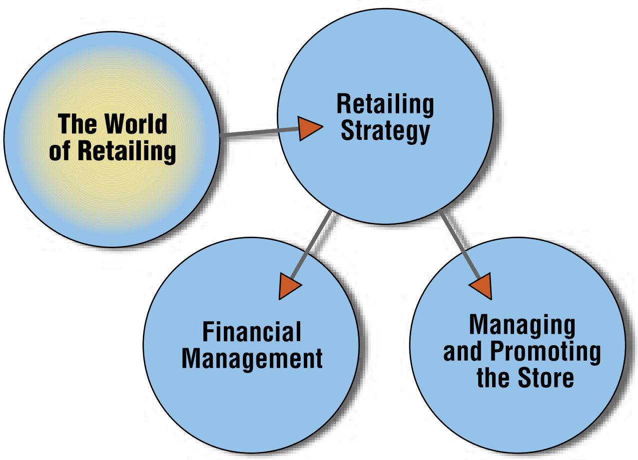
The chapters in Section I provide the background information about retail customers and competitors that is needed to understand retailing and develop and effectively implement a retail strategy.

Chapter 1 describes the role of retailing as a keystone to the Canadian economy, the functions retailers perform, and the variety of decisions they make to satisfy customers' needs in a rapidly changing, highly competitive environment.

Chapter 2 describes the different types of retailers and how retailers are using the multichannel approach to attract customers.

SECTION I

THE WORLD OF RETAILING



Chapter 3 discusses the impact of electronic retailing and examines the strategies of successful e-tailers.

Chapter 4 discusses factors consumers consider when choosing stores and buying merchandise and explores trends in consumer demographic segments.

- Section II outlines the strategic decisions retailers make.
- Sections III and IV explore tactical decisions concerning merchandise and store management.

Introduction to the World of Retailing

CHAPTER 1

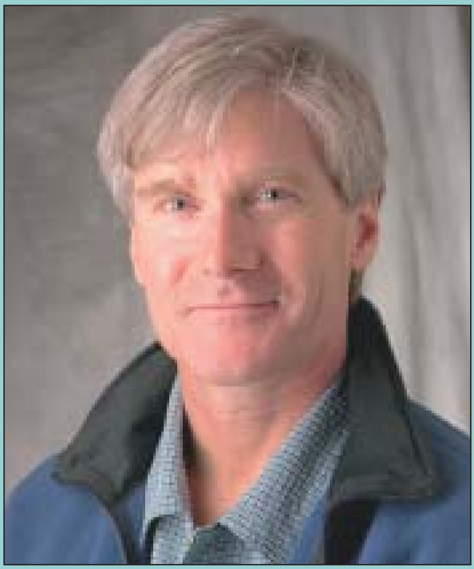
EXECUTIVE BRIEFING

Peter Robinson, Chief Executive Officer, Mountain Equipment Co-op

Mountain Equipment Co-op is a Vancouver-based retailer that strives to make a difference. MEC is a well-recognized brand that has become synonymous with high-quality outdoor clothing and gear for cyclists, hikers, mountain bikers, and active everyday users.

The company—founded in 1971 by a group of University of British Columbia climbing enthusiasts—has evolved from a business run out of the back of a Volkswagen van into a successful company with nine stores, in Vancouver, Calgary, Edmonton, Winnipeg, Toronto, Ottawa, Quebec City, Halifax, and Montreal. Much of its success can be attributed to an increase in consumer demand for casual sportswear, participation by Canadians in a more active lifestyle, and the appeal of the company's unshakeable ethical philosophy. As Peter Robinson, the company's chief executive officer and a former park ranger, explains, "The core purpose is to offer high-quality outdoor gear to our members at the lowest possible price, and we believe in trying to achieve the leading edge on issues that affect social and environmental responsibility."

MEC is Canada's biggest consumer co-operative by membership, with 1.5 million members and annual sales of $168.6 million and remote sales (Web, phone, corporate, and group) accounting for approximately $17.4 million in 2003. According to Robinson, "As a non-profit organization, MEC budgets for a yearly surplus between 3 and 4 percent of sales, a prudent financial cushion." Customers must be members to



QUESTIONS

- What is retailing?
- What do retailers do?
- Why is retailing important in our society?
- What career and entrepreneurial opportunities does retailing offer?
- What types of decisions do retail managers make?

shop at Mountain Equipment Co-op; a lifetime membership is $5 for one share, which enables the customer to vote at the annual general meeting.

Private label merchandise has become a hallmark of MEC's success and makes up about half of its own products, including clothing, sleeping bags, tents, and backpacks. Traditionally in-house brands have the capability of producing higher profit margins for the retailer, but MEC maintains a lower markup on the private label merchandise, 28 percent, and therefore is able to pass the savings on to the consumer. According to Peter Robinson "We don't want to have a high margin; we want to offer our gear at good prices." Profit is not the motivator for business growth at MEC.

Hiring the right staff is an essential ingredient to Mountain Equipment Co-op's philosophy. Robinson explains that it is essential to connect to the customer through knowledgeable sales staff who have not only "a serious passion for outdoor activity" but strive to exceed customer expectations.

Sources: Hollie Shaw, "Mountain Keeps Profit at Sea Level," *The National Post*, October 6, 2001; Sheila McGovern, "Mountain in Motion," *The Gazette*, May 20, 2003; Greg Mercer, "Montreal Gets a Mountain Co-op," *The Vancouver Sun*, May 20, 2003.

Retailing is evolving into a global, high-tech business. Wal-Mart is now the world's largest corporation, with 2002 retail sales of $245 billion and 4750 stores worldwide.[1] French-based Carrefour, the world's second-largest retailer, operates hypermarkets in 24 countries. Some of the largest retailers in North America, such as A&P and 7-Eleven, are owned by companies with headquarters in Europe and Japan.

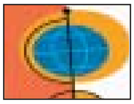
Retailers are using sophisticated communication and information systems to manage their businesses. For example, at the 8200 7-Eleven stores in Japan, each customer's market basket is scanned. These data are sent via satellite and the Internet to corporate headquarters. Headquarters then aggregates the data by region, product, and time and makes that information available to all stores and suppliers by the following morning. Orders for fast-food and fresh-food items are placed three times a day, magazines once a day, and processed-food items three times a week. Because of the stores' limited size, deliveries are made 10 times a day.[2]

Amazon.com maintains a data warehouse with information about what each customer has bought. With this information, customers returning to its website (www.amazon.com) are immediately recognized and suggestions based on past purchases are made. E-mails are sent to the customers when new books in their area of interest are published.

REFACT

Quebec had 57 190 retail establishments in 2003, representing 11.4 percent of the province's total number of businesses.[4]

Bricks-and-mortar stores are leveraging their customer base by making it easy and convenient to buy at stores, over the Internet, or by phone using a catalogue. As a result, multichannel customers typically purchase more than their single-channel counterparts.



To compete against nonstore retailers, stores are becoming more than just places to buy products. They are offering entertaining and educational experiences for their customers. For example, the Running Room operates 58 stores across Canada and connects to its customers with a Learn to Run Program that offers advice to the novice runner. As well, the Running Room produces a free magazine advising 130 000 customers about new products and community runs.[3] These features enhance customers' visual experiences, provide them with educational information, and enhance sales potential by enabling them to "try before they buy."

Retailing is such a part of our everyday lives that it's often taken for granted. Customers often aren't aware of the sophisticated business decisions retail managers make and the technologies they use to provide goods and services. Retail managers must make complex decisions in selecting target markets and retail locations, determining what merchandise and services to offer, negotiating with suppliers and distributing merchandise to stores, training and motivating sales associates, and deciding how to price, promote, and present merchandise. Considerable skill and knowledge are required to make these decisions effectively. Working in this highly competitive, rapidly changing environment is challenging and exciting and offers significant financial rewards.

This book describes the world of retailing and gives principles for effectively managing businesses in this challenging environment. Knowledge of retailing principles and practices will help you develop management skills for many business contexts. For example, Procter & Gamble and Hewlett-Packard managers need to have a thorough understanding of how retailers operate and make money so they can get their products on retail shelves and work with retailers to sell them to consumers. Financial and health care institutions are using retail principles to develop assortments of services, improve customer service, and make their offerings available at convenient locations.

WHAT IS RETAILING?

Retailing is the set of business activities that add value to the products and services sold to consumers for their personal or family use. Often people think of retailing only as the sale of products in stores. But retailing also involves the sale of services: overnight lodging in a motel, a doctor's exam, a haircut, a movie rental, or a home-delivered pizza. Not all retailing is done in stores. Examples of nonstore retailing are Internet sales of CDs, direct sales of cosmetics by Avon, and catalogue sales by Canadian Tire.

A Retailer's Role in a Distribution Channel

A **retailer** is a business that sells products or services, or both, to consumers for their personal or family use. Retailers attempt to satisfy consumer needs by having the *right* merchandise, at the *right* price, at the *right* place, when the consumer wants it. Retailers also provide markets for producers to sell their merchandise. Retailers are the final business in a distribution channel that links manufacturers to consumers.

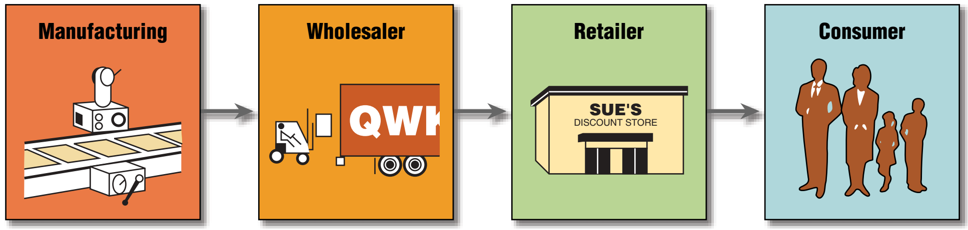


EXHIBIT 1–1
Example of a Distribution Channel

A **distribution channel** is a set of firms that facilitate the movement of products from the point of production to the point of sale to the ultimate consumer. Exhibit 1–1 shows the retailer's position within a distribution channel.[5]

Manufacturers typically make products and sell them to retailers or wholesalers. When manufacturers like Tiger Brand and Avon sell directly to consumers, they are performing both the production and retailing business activities. Wholesalers buy products from manufacturers and resell these products to retailers, and retailers resell products to consumers. Wholesalers and retailers may perform many of the same functions described in the next section. But wholesalers satisfy retailers' needs, whereas retailers direct their efforts to satisfying needs of ultimate consumers. Some retail chains, like Rona and Costco, are both retailers and wholesalers. They're performing retailing activities when they sell to consumers and wholesaling activities when they sell to other businesses like building contractors or restaurant owners.

In some distribution channels, the manufacturing, wholesaling, and retailing activities are performed by independent firms. But most distribution channels have some vertical integration.

Vertical integration means that a firm performs more than one set of activities in the channel, such as investments by retailers in wholesaling or manufacturing. For example, most large retailers—such as Wal-Mart and Staples Business Depot—do both wholesaling and retailing activities. They buy directly from manufacturers, have merchandise shipped to their warehouses for storage, and then distribute the merchandise to their stores. Other retailers, such as The Gap, La Senza, and Roots, are even more vertically integrated. They design the merchandise they sell and then contract with manufacturers to produce it exclusively for them.

REFACT

The tea bag was developed by a Macy's buyer. A JCPenney buyer developed panty hose.

Functions Performed by Retailers

Why bother with retailers? After all, wouldn't it be easier and cheaper to buy directly from those who produce the products? The answer is, generally no. Although there are situations where it is easier and cheaper to buy directly from manufacturers, such as at a farmer's market or from Dell Computer, retailers provide important functions that increase the value of the products and services they sell to consumers and facilitate the distribution of those products and services for those who produce them. These functions are:

- Providing an assortment of products and services.
- Breaking bulk.
- Holding inventory.
- Providing services.

Providing Assortments Supermarkets typically carry 20 000 to 30 000 different items made by over 500 companies. Offering an assortment enables their customers to choose from a wide selection of brands, designs, sizes, colours, and prices in one location. Manufacturers specialize in producing specific types of products. For example, Campbell makes soup, Kraft makes dairy products, Kellogg makes breakfast cereals, and McCormick makes spices. If each of these manufacturers had its own stores that sold only its own products, consumers would have to go to many different stores to buy groceries to prepare a single meal.

All retailers offer assortments of products, but they specialize in the assortments they offer. Supermarkets provide assortments of food, health and beauty care, and household products, while Club Monaco provides assortments of clothing and accessories. Most consumers are well aware of the product assortments retailers offer. But new types of retailers offering unique assortments appear each year, such as Play It Again Sports (used sporting goods) and Molly Maid (home cleaning services).

REFACT

The word *retail* is derived from the French word *retaillier,* meaning to cut a piece off or to break bulk.

Breaking Bulk To reduce transportation costs, manufacturers and wholesalers typically ship cases of frozen dinners or cartons of blouses to retailers. Retailers then offer the products in smaller quantities tailored to individual consumers' and households' consumption patterns. This is called **breaking bulk.** Breaking bulk is important to both manufacturers and consumers. It is cost-effective for manufacturers to package and ship merchandise in larger rather than smaller quantities. It is also easier for consumers to purchase merchandise in smaller, more manageable quantities.

Holding Inventory A major function of retailers is to keep inventory that is already broken into user-friendly sizes so that products will be available when consumers want them. By maintaining an inventory, retailers provide a benefit to consumers—they reduce the consumer's cost of storing products. This is particularly important to consumers with limited storage space and for purchasing perishable merchandise like meat and produce.

Providing Services Retailers provide services that make it easier for customers to buy and use products. They offer debit, direct payment, or credit so consumers can have a product now and pay for it later. They display products so consumers can see and test them before buying. Some retailers have salespeople on hand to answer questions and provide additional information about products. Multichannel retailers offer the flexibility of buying anytime, day or night.

Increasing the Value of Products and Services By providing assortments, breaking bulk, holding inventory, and providing services, retailers increase the value consumers receive from their products and services. To illustrate, consider a closet door in a shipping crate in a manufacturer's warehouse. The door won't satisfy the needs of a do-it-yourselfer who wants to replace a closet door today. For the customer, a conveniently located home improvement centre like Rona sells one door that is available when the customer wants it. The home improvement centre helps the customer select the door by displaying doors so they can be examined before they're purchased. An employee is available to explain which door is best for closets and how the door should be hung. The centre has an assortment of hardware, paint, and tools that the customer will need for the job. Thus, retailers increase the value of products and services bought by their customers.

REFACT

Quebec's retail sector employed approximately 493 000 people in 2003, representing 12.3 percent of the province's total workforce of 4 016 000.[6]

EXHIBIT 1–2
Retail Employment by Province

Region	Total, All Industries (in 000s)	Manufacturing (in 000s)	Retail Trade (in 000s)	% of Provincial Labour Force	Rank by # in Labour Force
Canada	17 046.8	2 440.2	1 988.9	11.7%	3rd
British Columbia	2 202.1	219.8	258.3	11.7%	1st
Alberta	1 814.9	153.6	205.1	11.3%	1st
Saskatchewan	515.8	29.8	63	12.2%	1st
Manitoba	598.6	71.9	66.5	11.1%	3rd
Ontario	6 694.1	1 148.6	748.8	11.2%	2nd
Quebec	4 016.5	687.1	493.6	12.3%	2nd
New Brunswick	385.8	47.5	45.7	11.8%	3rd
Nova Scotia	480.1	53.5	63.5	13.2%	1st
Prince Edward Island	77.5	7.7	9.6	12.4%	1st
Newfoundland & Labrador	261.4	20.8	34.7	13.3%	1st (tied)

Source: Adapted from Statistics Canada, Canadian Business Patterns, June 2003.
* Labour force data is not provided for Nunavut, Yukon or the Northwest Territories.

ECONOMIC SIGNIFICANCE OF RETAILING

Retail Sales

Retailing affects every facet of life. Just think of how many contacts you have with retailers when you eat meals, furnish your apartment, have your car fixed, and buy clothing for a party or job interview. Canadian retail sales reached $330 billion in 2003.

Employment

In Canada, the retail sector provided approximately 12 percent of employment or 1.75 million jobs in 2000. A dominant characteristic of the retail sector in Canada is the small size of many of the establishments: 72 percent of all retail businesses employ less than five persons. The retail trade has Canada's third largest labour force, and has the largest labour force in 6 provinces.

The composition of the retail industry in Canada is dominated by motor vehicles, parts, service, and rental businesses at 28 percent, and food and beverage establishments at 22 percent; clothing, footwear, and accessories retailers account for 10 percent.[7]

Exhibit 1–2 shows the retail employment representation by province.

OPPORTUNITIES IN RETAILING

Management Opportunities

To cope with a highly competitive and challenging environment, retailers are hiring and promoting people with a wide range of skills and interests. Students often view retailing as a part of marketing because management of distribution channels is part of a manufacturer's marketing function. But retailers undertake most of the traditional business activities. Retailers raise capital from financial institutions; purchase goods and services; develop accounting and management information systems to control operations;

REFACT

Since 1945, London Drugs (with annual sales of $1.5 billion) has prospered in Western Canada and was named Distinguished Canadian Retailer of the Year by the Retail Council of Canada in 2003.[8]

manage warehouses and distribution systems; and design and develop new products as well as undertake marketing activities such as advertising, promotions, sales force management, and market research. Thus, retailers employ people with expertise and interest in finance, accounting, human resource management, logistics, and computer systems as well as marketing.

Retail managers are often given considerable responsibility early in their careers. Retail management is also financially rewarding. After completing a management training program in retailing, managers can increase their starting salary in three to five years if they perform well.

Entrepreneurial Opportunities

Retailing also provides opportunities for people wishing to start their own business. Some of the most successful people are retail entrepreneurs, such as Canada's John Forzani. Some are household names because their names appear over the stores' doors; these include Tim Horton (Tim Hortons), Eddie Black (Black's Cameras), and John Holt and G.R. Renfrew (Holt Renfrew).

While playing pro football 30 years ago for the Calgary Stampeders, *John Forzani*, frustrated by the inability to buy high-quality Canadian athletic footwear, envisioned a retail opportunity. John Forzani became Canada's largest sporting goods retailer, and in 2001 was named Retailer of the Year by the Retail Council of Canada with revenues in excess of $681 million and net earnings of $12.5 million. Today the Forzani Group Ltd. operates under a number of banners selling sporting goods, footwear, and apparel in 300 corporate and franchised stores across Canada. The company developed several store concepts that cater to different segments of the population: the Sports Mart banner is directed to the value shopper, Sport Chek aims toward the mid-market sports and leisure customer, and Coast Mountain Sports is focused as a higher-end concept. In the battle to maintain market share and stay ahead of the competition, the Forzani Group acquired Toronto-based inventory liquidator Gen-X Sports Ltd in 2004. This strategic move is an attempt to source goods cheaply from overstocked or distressed suppliers anywhere in the world to expand Forzani's ability to compete on price without hurting profits.[9]

In 1945, *Luciano Benetton* lost his father when he was only 10 years old.[10] He had to sell newspapers to help his family make ends meet. In the 1960s, he and his sister, Giuliana, started a small sweater company. One designed the sweaters and was in charge of manufacturing, while the other handled the marketing side, acting as a commercial representative. Luciano went to England to study a technique whereby one knitted in off-white yarn, only dyeing the wool at the last minute, thus keeping up with ever-changing fashion trends. Benetton now operates stores in 120 different countries, under the United Colors of Benetton, O12, and Sisley labels. Luciano continues to run the now U.S. $1.8 billion (2000 sales) fashion empire as well as other major businesses.

Most think of *Giorgio Armani* only as a fashion designer. Yet this Italian, with an estimated net worth of U.S. $1.7 billion, oversees ownership of 260 stores. After stints designing for Cerruti, Ungaro, and Zegna, he sold his Volkswagen to fund the start-up of his own label. In 1973–74, at a fashion show in Florence, he presented to great acclaim bomber jackets that treated leather as a regular, everyday fabric. This penchant for using materials in unexpected contexts and combinations came to be known as a defining characteristic of his genius. In 1975, Armani and partner Sergio Galeotti started their own company, Giorgio Armani S.p.A., and founded the Armani label.[11] Armani has built his firm into a U.S. $1 billion brand (annual revenues). Retailing View 1.1 examines the life of one of retailing's greatest entrepreneurs, Sam Walton.

Sam Walton, Founder of Wal-Mart (1918–1992) RETAILING VIEW 1.1

"Like Henry Ford with his Model T," said a professor of rural sociology at the University of Missouri, "Sam Walton and his Wal-Marts, for better or for worse, transformed small-town America." Others think he transformed the entire nation.

After graduating from the University of Missouri in 1940, Walton began working at a JCPenney store in Des Moines, Iowa. After serving in the Army during World War II, he purchased a Ben Franklin variety store franchise in Newport, Arkansas. He boosted sales by finding offbeat suppliers who would sell to him lower than he could buy from Ben Franklin.

Walton lost his store, however, in 1950 when the landlord refused to renew the lease. He then moved to Bentonville, Arkansas, where he and a younger brother franchised another Ben Franklin store. Walton employed a new self-service system, one he had discovered at two Ben Franklin stores in Minnesota: no clerks or cash registers around the store, only checkout lanes in the front. By 1960, Walton had 15 stores in Arkansas and Missouri and had laid the foundation for his own discount chain.

By the early 1960s, retailers had developed the discount superstore concept using self-service, large inventories, and massive parking lots. Walton joined them in 1962 when he opened his first Wal-Mart Discount City in Rogers, Arkansas. At least one observer called it a mess—with donkey rides and watermelons mixed together outside under the boiling sun and merchandise haphazardly arranged inside.

But Walton quickly brought order to his enterprise and pursued an important new concept: large discount stores in small towns. Walton saw cities saturated with retailers and believed he could prosper in towns that the larger companies had written off. By the 1980s, Walton started building stores in larger suburbs. Walton then started Sam's Clubs, warehouse-style stores that sold merchandise at discount prices in bulk. Next came Wal-Mart Supercenters, ranging from 97,000 to 211,000 square feet, that featured a supermarket and a regular Wal-Mart under one roof. As a result of their success, Wal-Mart is now the largest food retailer in the United States.

Walton often visited his stores, dropping in unannounced to check the layouts and books and talk to his

Sam Walton believed in "Management by Walking Around."

"associates." He prided himself on a profit-sharing program and a friendly, open atmosphere. He often led his workers in a cheer—some called corny, others uplifting. He once described it: "Give me a W! Give me an A! Give me an L! Give me a Squiggly! (Here, everybody sort of does the twist.) Give me an M! Give me an A! Give me an R! Give me a T! What's that spell? Wal-Mart! What's that spell? Wal-Mart! Who's number one? THE CUSTOMER!"

He offered his own formula for how a large company must operate: "Think one store at a time. That sounds easy enough, but it's something we've constantly had to stay on top of. Communicate, communicate, communicate: What good is figuring out a better way to sell beach towels if you aren't going to tell everybody in your company about it? Keep your ear to the ground: A computer is not—and will never be—a substitute for getting out in your stores and learning what's going on."

In 1991, Walton reached a pinnacle as America's wealthiest person. He died of leukemia in 1992. Wal-Mart is now the world's largest corporation.

Source: "Sam Walton," *American Business Leaders,* January 1, 2001. Reprinted by permission.

There are entrepreneurial opportunities in retailing. Jeff Bezos, founder of Amazon.com, came up with a business plan for his new company in 1994 while driving across the U.S. with his wife. Luciano Benetton and his sister Giuliana started a small sweater company in Italy in 1945. Today their fashion empire sports almost U.S. $2 billion in annual sales.

THE RETAIL MANAGEMENT DECISION PROCESS

Understanding the World of Retailing

The first step in the retail management decision process is understanding the world of retailing. Retail managers need to understand their environment, especially their customers and competition, before they can develop and implement effective strategies. The first section of this book provides a general overview of the retailing industry and its customers.

The critical environmental factors in the world of retailing are (1) the macroenvironment and (2) the microenvironment. The impacts of the macroenvironment—including technological, social, and ethical/legal/political factors on retailing—are discussed throughout the book.

Competitors At first glance, identifying competitors appears easy. A retailer's primary competitors are those with the same format. Thus, department stores compete against other department stores and supermarkets against other supermarkets. This competition between retailers of the same type is called **intratype competition**.

To appeal to a broader group of consumers and provide one-stop shopping, many retailers are increasing their variety of merchandise. **Variety** is the number of different merchandise categories within a store or department. By offering greater variety in one store, retailers can offer one-stop shopping to satisfy more of the needs of their target market. For example, clothing and food are now available in grocery, department, and discount stores and drugstores. Fast food is available at McDonald's and convenience stores. The offering of merchandise not typically associated with the store type, such as clothing in a drugstore, is called **scrambled merchandising.** Scrambled merchandising increases **intertype competition**—competition between retailers that sell similar merchandise using different formats, such as discount and department stores.

Increasing intertype competition has made it harder for retailers to identify and monitor their competition. In one sense, all retailers compete against each other for the dollars consumers spend on goods and services. But the intensity of competition is greatest among retailers located close together with retail offerings that are viewed as very similar.

Since convenience of location is important in store choice, a store's proximity to competitors is a critical factor in identifying competition. Consider two movie rental stores, Blockbuster and Harry's Video, in two suburbs 10 kilometres apart. The stores are the only specialty movie rental retailers within 50 kilometres, but a grocery store also rents a more limited selection of movies in the same strip mall as Blockbuster. Due to the distance between Blockbuster and Harry's Video, they probably don't compete against each other intensely. Customers who live near Harry's Video will rent movies there, whereas customers close to Blockbuster will rent movies at Blockbuster or the grocery store. In this case, Harry's major competition may be movie theatres and cable TV, because it's too inconvenient for customers close to Harry's to rent movies elsewhere. On the other hand, Blockbuster competes most intensely with the grocery store.

Retailing is intensely competitive. Understanding the different types of retailers and how they compete with each other is critical to developing and implementing a retail strategy.

Customers The second factor in the microenvironment is customers. Customer needs are changing at an ever-increasing rate. Retailers are responding to broad demographic and lifestyle trends in our society, such as the growth in the elderly and minority segments of Canadian population and the importance of shopping convenience to the rising number of two-income families. To develop and implement an effective strategy, retailers need to understand why customers shop, how they select a store, and how they select among that store's merchandise.

Developing a Retail Strategy

The next stages in the retail management decision-making process, formulating and implementing a retail strategy, are based on an understanding of the macro- and microenvironments. Section II in this book focuses on decisions related to developing a retail strategy.

The **retail strategy** indicates how the firm plans to focus its resources to accomplish its objectives. It identifies:

- the target market, or markets, toward which the retailer will direct its efforts
- the nature of the merchandise and services the retailer will offer to satisfy needs of the target market
- how the retailer will build a long-term advantage over competitors.

The nature of a retail strategy can be illustrated by comparing strategies of Wal-Mart and Toys "R" Us. Initially Wal-Mart identified its target market as small towns (under 35 000 in population) in the U.S. It offered name-brand merchandise at low prices in a broad array of categories, ranging from laundry detergent to girls' dresses. Although Wal-Mart stores have many different categories of merchandise, selection in each category is limited. A store might have only three brands of detergents in two sizes, while a supermarket carries eight brands in five sizes.

In contrast to Wal-Mart, Toys "R" Us identified its target as consumers living in suburban areas of large cities. Rather than carrying a broad array of merchandise categories, Toys "R" Us stores specialize in toys, games, bicycles, and furniture for children. While Toys "R" Us has limited categories of merchandise, it has almost all the different types and brands of toys and games currently available in the market.

Both Wal-Mart and Toys "R" Us emphasize self-service. Customers select their merchandise, bring it to the checkout line, and then carry it to their cars. Customers may even assemble the merchandise at home.

Since Wal-Mart and Toys "R" Us emphasize low price, they've made strategic decisions to develop a cost advantage over competitors. Both firms have sophisticated distribution and management information systems to manage inventory. Their strong relationships with suppliers enable them to buy merchandise at low prices.

Strategic Decision Areas The key strategic decision areas involve determining a market strategy, financial strategy, location strategy, organizational structure and human resource strategy, information systems and supply chain strategies, and customer relationship management strategies.

The selection of a retail market strategy is based on analyzing the environment and the firm's strengths and weaknesses. When major environmental changes occur, the current strategy and the reasoning behind it are reexamined. The retailer then decides what, if any, strategy changes are needed to take advantage of new opportunities or avoid new threats in the environment.

The retailer's market strategy must be consistent with the firm's *financial objectives*. Financial variables such as sales, costs, expenses, profits, assets, liabilities, and owner's equity are used to evaluate the market strategy and its implementation.

Decisions concerning *location strategy* are important for both consumer and competitive reasons. First, location is typically consumers' top consideration when selecting a store. Generally consumers buy gas at the closest service station and patronize the shopping mall that's most convenient to their home or office. Second, location offers an opportunity to gain long-term advantage over competition. When a retailer has the best location, a competing retailer has to settle for the second-best location.

A retailer's *organization design and human resource management strategy* are intimately related to its market strategy. For example, retailers that attempt to serve national or regional markets must make trade-offs between the efficiency of centralized buying and the need to tailor merchandise and services to local needs. Retailers that focus on customer segments seeking high-quality customer service must motivate and enable sales associates to provide the expected levels of service. The organization structure and human resources policies coordinate the implementation of the retailing strategy by buyers, store managers, and sales associates.

Retail information and supply chain management systems will offer a significant opportunity for retailers to gain strategic advantage in the coming decade. Retailers are developing sophisticated computer and distribution systems to monitor flows of information and merchandise from vendors to retail distribution centres to retail stores. Point-of-sale (POS) terminals read price and product information that's coded into Universal Product Codes (UPCs) affixed to the merchandise. This information is then transmitted to distribution centres or directly to vendors electronically, computer to computer. These technologies are part of an overall inventory management system that enables retailers to:

- give customers a more complete selection of merchandise
- decrease their inventory investment.

Basic to any strategy is understanding the customers so as to provide them with the goods and services they want. And even more important is to understand and cater to the wants of the retailer's most-valued customers. After all, these customers account for the major share of a retailer's sales and profits. **Customer relationship management (CRM)** is a business philosophy and set of strategies, programs, and systems that focus on identifying and building loyalty with a firm's most-valued customers. Data analysis is used by retailers to identify their most-valued customers. Once these customers are identified, special programs are designed to build their loyalty.

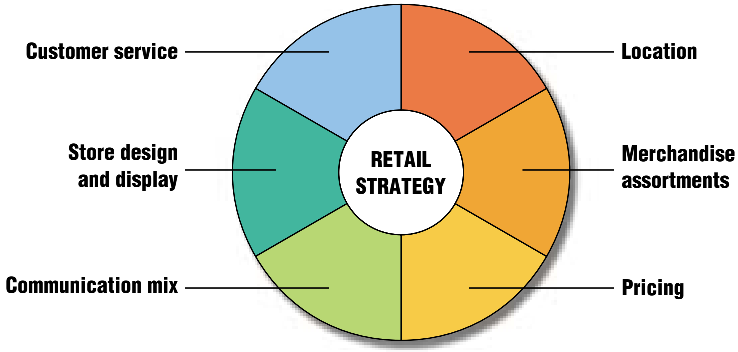


EXHIBIT 1–3
Elements in the Retail Mix

Implementing the Retail Strategy

To implement a retail strategy, management develops a retail mix that satisfies the needs of its target market better than its competitors. The **retail mix** is the combination of factors retailers use to satisfy customer needs and influence their purchase decisions. Elements in the retail mix (Exhibit 1–3) include the types of merchandise and services offered, merchandise pricing, advertising and promotional programs, store design, merchandise display, assistance to customers provided by salespeople, and convenience of the store's location.

Managers in the buying organization must decide how much and what types of merchandise to buy, the vendors to use and the purchase terms, the retail prices to set, and how to advertise and promote merchandise.

Store managers must determine how to recruit, select, and motivate sales associates, where and how merchandise will be displayed, and the nature of services to provide customers.

SUMMARY

This chapter provides an overview of the importance of the retailing sector to the Canadian economy. The retailing process is the final stage in the distribution of merchandise and is one of the most important sectors of the Canadian economy, providing approximately 12 percent of employment in Canada and producing annual retail sales of approximately $330 billion in 2003.

A dominant characteristic of the sector is the small size of many of the retail establishments, with 72 percent of all retail businesses in Canada employing less than five persons.

The Canadian retail industry has witnessed a number of dramatic changes in recent years as big box stores and power centres hit our landscape, and information and communication technology grew in sophistication. Retailing in Canada has responded with diversity as many types of stores compete in this dynamic marketplace: specialty retailers jibe with category killers, and traditional department stores battle for market share over the mass merchandisers. The examples in this chapter provide real-life glimpses of what is happening through facts and situations.

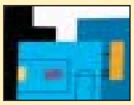
There is no doubt that the nature of retailing has changed as sophisticated technologies create efficiency of product distribution, and improve daily operations to satisfy customer needs.

The key to successful retailing is offering the right product, at the right price, in the right place, at the right time, and making a profit. To accomplish all this, retailers must understand what customers want and what competitors are offering now and in the future. Retailers' wide range of decisions extends from setting a brown wool sweater's price to determining whether a new multimillion-dollar store should be built in a mall.

KEY TERMS

breaking bulk, *6*
customer relationship management (CRM), *12*
distribution channel, *4*
intertype competition, *10*
intratype competition, *10*
retailer, *4*
retailing, *4*
retail mix, *13*
retail strategy, *11*
scrambled merchandising, *10*
variety, *10*
vertical integration, *5*

GET OUT & DO IT!



1. **GO SHOPPING** Visit your favourite multichannel retailer by going to a store and going to its Internet site. Evaluate how well the company has integrated these channels into one seamless strategy.

DISCUSSION QUESTIONS AND PROBLEMS

1. Why bother going to a retailer when you could probably purchase the same product more cheaply directly from a manufacturer?
2. Does Wal-Mart contribute to or detract from the communities in which it operates stores?
3. How might managers at different levels of a retail organization define their competition?
4. Explain the strategy used by your favourite retailer.

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