LECTURE NOTES

CHAPTER OPENING EXAMPLE

RETAILING IN ACTION AT ROBINSON

A. Robinson uses a focused and specific strategy to meet the changing needs and tastes of customers.

- Robinson targets middle- to high-income groups and focuses on young families and those who have just started their first jobs.

- Robinsons also focuses on younger generation aged 25 to 45 as they are seen as trendsetters who have influence over retail business.

- Robinson put its upmost attention on product offerings. It provides superior products and brands from top suppliers and manufacturer, also its own private labels.

- Robinson believes in great shopping atmosphere. Hence, in addition to its regular store renovations and interesting displays of products with mannequins, Robinson also launched regular themed events such as "Let's Get Tanned" to create buzz and promote its seasonal products.

- Stores also come with a special section called "recommended area" that provides customers with shopping information on latest product selections.

B. Robinson believes understanding and keeping in touch with customers are two keys of success in its retail operation.

- Robinson conducts regular surveys to stay aware of customer needs and preferences.

- Robinson engages "mystery shoppers" and conducts survey to keep track of its own performance and ultimately to ensure satisfaction from customers at all times.

C. Robinson uses various strategies to make shopping experience for customers.

- Robinson taps on advanced technology by using point-of-sale system to ensure efficiency and accuracy in customer service and merchandise management. This system helps in shortening time at checkout counters and helps to track products in demand in each store.

- Robinson ensure top quality customer service by having employees welcome and greet customers as they enter store; by providing product suggestions and fashion consultants; by providing basic yet pleasant retail store facilities such as ample parking areas and clean restrooms and fitting rooms.

- To promote brand loyalty, Robinson also provide membership program that allows members to be awarded special privileges. Media advertising and product endorsement by celebrities are also carried out to build its brand name.

D. In the channel of distribution, retailing is where the customer meets the product. It is through retailing that exchange occurs.

E. Retailing includes all activities involved in selling, renting, and providing goods and services to ultimate consumers for personal, family, or household use.

I. THE VALUE OF RETAILING [LO1]

- Retailing allows producers and consumers to meet through retailing actions and creates customer value in the form of utilities provided.
- To consumers, the value of retailing is in the form of utilities provided.
- Retailing's economic value is represented by the people employed in retailing and the total amount of money exchanged in retail sales.

A. Consumer Utilities Offered by Retailing

- The utilities provided by retailers create value for consumers.
- Most retailers offer time, place, form, and possession utilities in varying degrees, but one utility is usually emphasized most.
- Example of place utility; DBS Bank provided minibanks in supermarkets and places the bank's products and services close to the customers.
- Example of possession utility; Best Denki offers various payment modes and plans to make purchasing more convenient.
- Example of form utility; House Way Company offers product customization to meet each customer's specifications.
- Example of time utility; Bee Cheng Hiang sells bak kua all year round and increases its supply significantly during Chinese New Year to meet peak demand during this festive season.

B. The Global Economic Impact of Retailing

- Three of the 15 largest businesses in the U.S. are retailers (Wal-Mart, Home Depot, and Costco).
- Many other retailers, including food stores, automobile dealers, and general merchandise outlets, are also significant contributors to the U.S. economy.
- Other large global retailers include Daiei in Japan, Carrefour in France, KarstadtQuelle in Germany, and Marks & Spencer in Britain.
- In emerging economies such as China and Mexico, a combination of local and global retailers is evolving.

LEARNING REVIEW

1. When House Way Company provides storage equipment according to customers' specifications, what utility is provided?

Answer: form utility

2. Two measures of the impact of retailing in the global economy are ___________ and ___________.

Answer: total sales; number of employees

II. CLASSIFYING RETAIL OUTLETS [LO2]

Because of the large number of alternative forms of retailing, it is easier to understand the differences among retail institutions by recognizing that outlets can be classified in several ways:

- **Form of ownership** distinguishes retail outlets based on whether individuals, corporate chains, or contractual systems own the outlet.
- **Level of service** is used to describe the degree of service provided to the customer from three types of retailers: self-, limited-, and full-service.
- The type of **merchandise line** describes how many different types of products a store carries and in what assortment.

A. Form of Ownership

There are three general forms of retail ownership:

1. Independent Retailer.

a. Independent retailer, one of the most common forms of retail ownership, is owned by an individual.

b. Such retailers account for most retail establishments in Asia. Some of which include bakeries, clothing stores, restaurants and florists.

c. The advantage of this form of ownership for the owner is that he or she can be his or her own boss.

d. The independent store can offer customers convenience, quality personal service, and lifestyle compatibility.

2. Corporate Chains

a. Involves multiple outlets under common ownership where centralization in decision making and purchasing occurs.

b. Offers the following advantages to consumers:

- Can bargain with manufacturers to obtain good service or volume discounts on orders. The buying power is seen when consumers compare chain store prices with other store types.
- Have multiple outlets with similar merchandise and consistent management policies.

c. Retailers have developed a sophisticated inventory management and cost control systems that allow rapid price changes for each product in every store.

d. Retailers are using new technologies such as radio frequency identification (RFID) tags to improve the quality of information available about products.

3. Contractual Systems.

a. Contractual systems involve independently owned stores that band together to act like a chain. The three kinds are retailer-sponsored cooperatives, wholesaler-sponsored voluntary chains, and franchises.

b. Both retailer-sponsored cooperatives and wholesaler-sponsored voluntary chains can take advantage of volume discounts commonly available to chains and also give the impression of being a large chain, which may be viewed more favorably by some consumers.

c. In a franchise system, an individual or firm (the franchisee) contracts with a parent company (the franchisor) to set up a business or retail outlet.

- The franchisor assists in selecting the location, setting up the store or facility, advertising, and training personnel.
- The franchisee pays a onetime franchise fee and an annual royalty, usually tied to franchise's sales.

d. There are two general types of franchises:

- *Business-format franchises*. The franchisor provides step-by-step procedures and guidelines for the most likely decisions a franchisee will face.
- *Product-distribution franchises*. These include dealerships or soft drink distributors.

e. Franchising is attractive because it offers an opportunity for people to enter a well-known, established business for which managerial advice is provided. Also, the franchise fee may be less than the cost of setting up an independent business.

f. A report by Ecademy Asia Pacific suggests that the yearly turnover from Asia's franchise market is growing by US$50 billion and this growth will hit US$100 billion in five years.

g. The franchise markets in undeveloped countries are growing faster than developed countries. India and China markets are growing by 40 percent, compared to 5 percent in the United States.

h. When franchise fee when combined with royalty fee (4 to 12.5%) and real estate, equipment, and other costs, the total investment can be much higher.

i. By selling franchises, an organization reduces the cost of expansion but loses some control. However, a good franchisor will maintain strong control of the outlets in terms of delivery and presentation of merchandise and try to enhance recognition of the franchise name.

MARKETING MATTERS

Say Good-Bye to Bar Codes!

New technologies are continually changing the marketing and retailing environment. The tiny microchips known as radio frequency identification (RFID) tags could be just the next big thing. They are small and inexpensive, and are attached to pallets, cases, cartons, or even individual items. With the new technology, manufacturers, distributors and retailers use

RFID to collect detailed information about the products, eliminating the need for the current bar codes used to track goods.

Wal-Mart and Target top vendors will soon be using RFID tags, and manufacturers such as Gillette, Procter & Gamble, Nestle, and Unilever are actively involved in implementing the technology. Hewlett-Packard and Sun Microsystems are offering consulting services to companies developing RFID. Experts even predict that RFID could soon be used in driver's licenses, passports and even money.

[*SLN 17-1: Franchising Offers Opportunities and Financial, Legal, and Cultural Challenges*]

B. Level of Service

Differences in retail outlets are more obvious in terms of level of service, not form of ownership.

1. **Self-Service**.

   a. The outlet requires the customer to perform most functions; all nonessential services are eliminated. Example: TruMart stores in India and gas stations in Japan.

   a. New forms of self-service are being developed in grocery stores, airlines, camera/photo stores, and hotels. Example: Cathay Pacific installed self-service kiosks to allow passengers to find a seat and print out a boarding pass without help of an attendant.

2. **Limited Service**. The outlet provides some services, such as credit and merchandise return, but requires customers to be responsible for most shopping activities, although salespeople are available. Example: Parkson in Malaysia.

3. **Full-Service**. Full-service retailers, which include most specialty stores and department stores, provide many services to their customers. Example: Tangs in Singapore.

C. Type of Merchandise Line

Retail outlets also vary by their merchandise lines based on the breadth and depth of the items offered to customers.

- **Depth of product line** means that the store carries a large assortment of each item.

- **Breadth of product line** refers to the variety of different items a store carries.

1. **Depth of Line**.

   a. Stores that carry a considerable assortment (depth) of a related line of items are limited-line stores.

   b. Stores that carry tremendous depth in one primary line of merchandise are single-line stores.

   c. Both limited- and single-line stores are often referred to as *specialty outlets*.

   - Specialty discount outlets focus on one type of product.
   - These outlets are referred to as *category killers* because they often dominate the market.

2. **Breadth of Line**.

   a. Stores that carry a broad product line, with limited depth, are referred to as *general merchandise stores*.

   b. Traditionally, outlets carried related lines of goods. Today **scrambled merchandising** offers several unrelated product lines in a single store.

   c. A **hypermarket** is form of scrambled merchandising, which consists of a large store (more than 200,000 square feet) that offers consumers everything in a single outlet, eliminating the need to shop at more than one location. It also

   - Provides variety, quality, and low price for food and groceries and general merchandise.
   - Is popular in Europe.

   d. Another variation called the *supercenter*, which combines a merchandise store (≈ 70,000 sq. ft.) with a full-size grocery. Rustan and Tesco are using this concept successfully.

   e. Scrambled merchandising is convenient for consumers because it reduces the number of stops in a shopping trip.

   - For the retailer, this merchandising policy means there is between very dissimilar types of retail outlets, or **intertype competition**.
   - Scrambled merchandising and intertype competition make it more difficult to be a retailer.

LEARNING REVIEW

3. **Centralized decision making and purchasing are an advantage of _______ ownership.**

   Answer: chain

4. **What are some examples of new forms of self-service retailers?**

   Answer: Cathay Pacific installed self-service kiosks to allow passengers to find a seat and print out a boarding pass without help of an attendant. Aeon Company set up self-service checkout systems for customers purchasing less than ten items.
   .

5. **Would a shop for big men's clothes carrying pants in sizes 40 to 60 have a broad or deep product line?**

   Answer: Deep product line

III. NONSTORE RETAILING [LO3]

Many retailing activities today are not limited to sales in a store. Nonstore retailing occurs outside a retail outlet through activities that involve varying levels of customer and retailer involvement.

A. Automatic Vending

- Vending machines make it possible to serve customers when and where stores cannot.
- Maintaining and operating vending machines is expensive, so product prices tend to be higher than those in stores.
- Typically, small convenience products, such as cold beverages, candy and snacks, and other food, are sold in vending machines. Other products, such as DVDs, are also sold.
- Improved technology is making vending machines easier to use and reducing the need for cash:

  a. Many machines already accept credit cards.

  b. Some machines allow consumers to charge vending machine purchases to their cell phone accounts.

  c. Wireless technology can notify vendors of empty machines.

B. Direct Mail and Catalogs

- Direct mail and catalog retailing are attractive because they eliminate the cost of a store and clerks.
- It costs a traditional retail store $34 to acquire a new customer, whereas catalog customers are acquired for about $14.
- Catalogs improve marketing efficiency through segmentation and targeting, and they create customer value by providing a fast and convenient means of making a purchase.
- The Direct Marketing Association predicts that catalog retailing will reach $1.9 trillion in sales.
- One reason for the growth in catalog sales is that a traditional retailer such as Takashimaya is adding catalog operations.
- As consumer's direct-mail purchases increase, both the number of catalogs and products sold through them has increased.
- Competition and postal rate increases have caused catalog retailers to focus on proven rather than prospective customers.
- A successful approach used by many catalog retailers is to send specialty catalogs to market niches identified in their databases.
- Some retailers use catalogs to generate customer mail-order, telephone-order, online business and traffic to its stores.

C. Television Home Shopping

- Consumers watch a shopping channel (QVC, HSN, and ShopNBC) where products are displayed and then place orders via the telephone or Internet.
- These television home shopping channels offer apparel, jewelry, cooking, home improvement products, electronics, toys, and even food products.
- In the past, television home shopping programs have attracted mostly older women. To attract a younger audience, they invite celebrities onto the show.
- Increasingly, television shopping program combine their operations with other forms of retailing such as outlet stores, online ordering, and catalog operation.
- Several television shopping programs are testing interactive technology that to sell goods through video-capable cell phones. This way, users can make purchases using their handsets.

D. Online Retailing

- Online retailing allows consumers to search for, evaluate, and order products through the Internet.

- The advantages of online retailing are 24-hour access, ability to comparison shop, in-home privacy, and variety.

- There has been a melding of traditional and online retailers—"bricks and clicks"—that use experiences from both approaches to create better value and experiences for customers.

- A few retailers have recently introduced "site-to-store" service that allows customers to order online and then pick up the order without a shipping fee at the store of their choice.

- Experts predict that online sales will reach $328 billion by 2010.

- Consumers make online retail purchases using the following:

  a. Can pay dues to become a member of an online discount service.

  b. Use a shopping "bot" to search the Internet for a product and provide a report on the locations of the best prices available.

  c. Go directly to online shopping malls that have several types of retailers (bookstores, apparel, etc.).

  d. Use an online auction to bid on products.

- One problem online retailers face is that nearly two-thirds of online shoppers make it to "checkout" and then leave the website to compare shipping costs and prices on other sites.

  a. Of the shoppers who leave, 70 percent do not return.

  b. One way online retailers address this issue is to offer consumers a comparison of competitors' offerings.

  c. Some experts suggest that online retailers should think of their websites as dynamic billboards if they are to attract and retain customers.

E. Telemarketing

- **Telemarketing** involves using the telephone to interact with and sell directly to consumers. Sales exceed $500 billion.

- Compared with direct mail, telemarketing is often viewed as a more efficient means of targeting consumers.

- The telemarketing industry has gone through dramatic changes as a result of new legislation related to telephone solicitations.

  a. Issues such as consumer privacy, industry standards, and ethical guidelines have encouraged discussion among legislators, businesses, and consumers.

  b. The National Do-Not-Call (NDNC) registry was set up to eliminate unsolicited telemarketing calls and unwanted SMS messages.

- Some firms are considering shifting their telemarketing budgets to direct mail and door-to-door techniques.

F. Direct Selling

- Direct selling, sometimes called door-to-door retailing, involves direct sales of goods and services to consumers through personal interactions and demonstrations in their home or office.

- Direct selling contributed to a fairly large volume of consumer sales in countries such as Japan, South Korea and Malaysia.

- One possible factor for the fall in direct sales is competition from other non-store retail channels such as online retailing and television. Other factor includes the changing demographics such as falling birth rates and dual-career households.

- Possible factors for growth in the usage of direct selling:

  a. Can reach consumers who prefer one-to-one customer service and social shopping experiences rather than online or big-store shopping

  b. Body Shop uses direct marketing to broaden their customer base

LEARNING REVIEW

6. Successful catalog retailers often send ___________ catalogs to ___________ markets identified in their databases.

Answer: specialty; niche

7. How are retailers increasing consumer interest and involvement in online retailing?

Answer: Retailers have improved the online retailing experience by adding experiential or interactive activities to their websites through virtual models or the ability to customize a purchase.

8. What key issues confront the telemarketing industry?

Answer: Issues such as consumer privacy, industry standards, and ethical guidelines have encouraged discussion among legislators, businesses, and consumers.

IV. RETAILING STRATEGY [LO4]

A retailer develops and implements a retailing strategy by positioning the store and taking specific retailing mix actions.

A. Positioning a Retail Store

- The classification alternatives presented earlier determine a retail store's position relative to its competitors.
- The **retail positioning matrix** positions retail outlets on two dimensions: breadth of product line and value added.

  a. *Breadth of product line* is the range of products sold through each outlet.

  b. *Value added* includes elements such as location, product reliability, or prestige.

- The retail positioning matrix in Figure 17–8 shows four possible positions. An organization can be successful in any position, but unique strategies are required within each quadrant. Consider the four stores shown in the matrix:

  a. *Robinsons.* High value added; broad product line.
  - Retailers pay great attention to store design and product lines.
  - Merchandise often has a high margin of profit and is of high quality.
  - The stores in this position typically provide high levels of service.

  b. *Wal-Mart*. Low value added; broad product line.
  - Firms trade a lower price for increased volume in sales.
  - Retailers focus on price with low service levels and an image of being a place for good buys.

  c. *Tiffany & Co*. High value added; narrow product line.
  - Retailers sell a very restricted range of products that are of high-status quality.

- Customers are provided with high levels of service.

d. *Margin Free Market*. Low value added; narrow product line.

- Such retailers are specialty mass merchandisers.
- These outlets appeal to value-conscious consumers.
- Economies of scale are achieved through centralized advertising, merchandising, buying, and distribution.
- Stores have the same in design, layout, and merchandise.

- **Keys to positioning.** To successfully position a store, it must have an identity that has some advantages over the competitors yet is recognized by consumers.

B. Retailing Mix

The **retailing mix** includes activities related to managing the store and the merchandise in the store, which includes retail pricing, store location, retail communication, and merchandise.

1. Retail Pricing. In setting prices for merchandise, retailers must decide on:

a. The *markup* refers to how much should be added to the cost the retailer paid for a product to reach the final selling price.

- The *original markup* is the difference between retailer cost and initial selling price.
- The difference between the final selling price and retailer cost is the *maintained markup*, which is also called the *gross margin*.

b. Discounting a product, or taking a *markdown*, occurs when the product does not sell at the original price and an adjustment is necessary.

- Often new models or styles force the price of existing models to be marked down.
- Discounts may also be used to increase demand for complementary products.
- The *timing* of a markdown can be important:
  - Many retailers take a markdown as soon as sales fall off to free up valuable selling space and cash.
  - Other stores delay markdowns to discourage bargain hunters and maintain an image of quality.

- Retailers must consider how the timing of markdowns might affect future sales because frequent promotions increase consumers' ability to remember regular prices.

c. Many retailers use price discounts as a part of their regular merchandising policy.

- *Everyday low pricing* emphasizes consistently low prices and eliminates most markdowns. The brand name of the product and the image of the store become important decision factors.
- *Everyday fair pricing* is advocated by retailers that do not offer the lowest price but tries to create value for customers through service and the buying experience.
- Consumers often use the prices of *benchmark* or *signpost* items to form an overall impression of the store's prices.

d. Off-price retailing involves selling brand-name merchandise at lower than regular prices.

- The difference between the off-price retailer and a discount store is that off-price merchandise is bought by the retailer from manufacturers with excess inventory at prices below wholesale prices, while the discounter buys at full wholesale price but takes less of a markup than do traditional department stores.
- While selection at an off-price retailer is unpredictable, searching for bargains is popular for consumers.
- Off-price retailers save consumer up to 70 percent off the prices of a traditional department store.

e. The *warehouse club* is a variation of off-price retailing.

- These large stores (more than 100,000 square feet) are rather stark outlets with no elaborate displays, customer service, or home delivery.
- They require an annual membership fee (ranging from US$30 to US$100) for the privilege of shopping there.
- They carry about 3,500 items and usually stock just one brand of appliance or food product.
- Service is minimal, and customers usually must pay by cash or check.
- Customers are attracted by the ultra-low prices and surprise deals on selected merchandise, although several of the clubs have started to add ancillary services to differentiate themselves from competitors.
- The major warehouse clubs in the Big Bazaar Wholesale Club, GrandMart Warehouse Club, and Philipinas Makro Inc.

f. A second variation of off-price retailing is the *outlet store*.

- Factory outlets offer products for 25 to 30 percent off the suggested retail price.
- Manufacturers use the stores to clear excess merchandise and to reach consumers who focus on value shopping and retailers maintain an image of offering merchandise at full price in their primary store.
- The next trend is to combine the various types of off-price retailers in "value-retail centers."

g. Single-price, or extreme value retailers are a third variation of off-price retailing.

- These stores attract customers who want value and a "corner store" environment rather than a supercenter experience.
- Experts predict extraordinary growth of these types of retailers.

2. Store Location. A second aspect of the retailing mix involves deciding where to locate the store and how many stores to have.

a. Department stores, which started downtown in most cities, have followed customers to the suburbs, and in recent years more stores have opened in large regional malls.

b. The **central business district** is the oldest retail setting, usually located in the community's downtown area.

- Suburban population growth, a lack of parking, higher crime rates, and exposure to the weather has diminished the importance of downtown shopping.
- Many cities have implemented plans to revitalize shopping in central business districts by attracting new offices, entertainment, and residents to the downtown.

c. **Regional shopping centers** consist of 50 to 150 stores that typically attract customers who live or work within a 5- to 10-mile range, often containing two or three *anchor stores*, which are well-known national or regional stores.

d. The **community shopping center**, which typically has one primary store (usually a department store branch) and often 20 to 40 smaller outlets, serving a population of consumers who are within a 10- to 20-minute drive.

e. Many neighborhoods have clusters of stores, referred to as a **strip location**, to serve people who are within a 5- to 10-minute drive. The composition of these stores is unplanned.

f. A variation of the strip shopping location is the **power center**, which is a huge shopping strip with multiple anchor (or national) stores.

- Power centers have the convenient location found in strip centers and the additional power of national stores.
- These often have 2-5 anchor stores and often contain a supermarket, which brings the shopper to the power center on a weekly basis.

3. Retail Communication.

a. A retailer's communication activities can play an important role in positioning a store and creating its image.

b. Image is "the way in which the store is defined in the shopper's mind," partly by its functional qualities and partly by an aura of psychological attributes.

- *Functional* refers to mix elements, such as price ranges, store layouts, and breadth and depth of merchandise lines.
- Psychological attributes are the intangibles such as a sense of belonging, excitement, style, or warmth.
- A store's image is based on consumers' impressions of the corporation that operates it, the type, the, the brands carried, the service quality, and the marketing activities.

c. Closely related to the concept of image is the store's atmosphere or ambiance.

- Retailers believe sales are affected by layout, color, lighting, and music in the store as well as by how crowded it is.
- It may also affect the store's employees.
- A retail store tries to attract its target audience with what those consumers seek from the buying experience, so the store will reinforce the beliefs and the emotional reactions buyers seek.
- While store image perceptions can exist independently of shopping experiences, consumers' shopping experiences can also influence store perceptions.

4. Merchandise.

a. Managing the breadth and depth of the product line requires retail buyers who are familiar with the needs of the target market and the alternative products available.

b. A popular approach to managing the assortment of merchandise is called **category management**.

- This approach assigns a manager with the responsibility for selecting all products that a market segment view as substitutes to maximize sales and profits in the category.
- Many retailers are developing an advanced form of category management called *consumer marketing at retail* (CMAR). This practice involves identifying shopper problems, developing solutions that lead to retailing mix actions, executing shopper-friendly in-store programs, and monitoring the performance of the merchandise.

c. Retailers have a variety of metrics that can be used to assess the effectiveness of a store or retail format.

- Measures related to customers such as the number of transactions per customer, the average transaction size per customer, the number of customers per day or per hour, and the average length of a store visit.
- Measures related to products such as number of returns, inventory turnover, inventory carrying cost, and average number of items per transaction.
- Financial measures, such as gross margin, sales per employee, return on sales, and markdown percentage. The two most popular measures for retailers are *sales per square foot* and *same store growth rate*.

LEARNING REVIEW

9. What are the two dimensions of the retail positioning matrix?

Answer: breadth of product line and value added

10. How does original markup differ from maintained markup?

Answer: The original markup is the difference between retailer cost and initial selling price whereas maintained markup is the difference between the final selling price and retailer cost.

11. A huge shopping strip with multiple anchor stores is a ___________ center.

Answer: power

USING MARKETING DASHBOARDS

Why Apple Stores May Be the Best in the United States!

Sales per Square Foot and Same Store Growth Percent

Information related to (1) sales per square foot and (2) same store sales growth can be displayed in a marketing dashboard.

Your Challenge.

Apple is new to the retailing business and many experts have been skeptical of its simple, inviting, open atmosphere format. To evaluate the Apple store retail format, use (1) *sales per square foot* as an indicator of how effectively retail space is used to generate revenue and (2) *same store growth* to compare the increase in sales of stores that have been open for the same period of time. The calculations for these indicators are:

$$\text{Sales per Square Foot} = \frac{\text{Total Sales}}{\text{Selling Area in Square Feet}}$$

$$\text{Same Store Growth} = \frac{(\text{Store Sales in Year 2} - \text{Store Sales in Year 1})}{\text{Store Sales in Year 1}}$$

Your Findings.

You decide to collect sales information for Saks, Neiman Marcus, Best Buy, Tiffany, and Apple stores to allow comparisons with other successful retailers. The information you collect allows the calculation of *sales per square foot* and *same store growth* for each store. The results are then easy to compare in the graphs displayed on the marketing dashboard.

The results of your investigation indicate that Apple stores' sales per square foot are higher than any of the comparison stores at $4,000. In addition, Apple's same store growth rate of 45 percent is higher than all of the other stores.

Your Actions.

Because Apple's store format is very effective, nothing at this point should be done. However, Apple should keep monitoring the situation to identify any changes in sales and growth and isolate those, if any, that result from the store format. With these glowing results, Apple may be the best retailer in the U.S at the time of the analysis.

V. THE CHANGING NATURE OF RETAILING [LO5]

Retailing is the most dynamic aspect of a channel of distribution because new retailers are always entering the market and searching for a new position that will attract customers.

A. The Wheel of Retailing

- The **wheel of retailing** describes how new forms of retail outlets enter the market, as shown in Figure 17-9.

    a. They usually they enter as low-status, low-margin stores (box 1).

    b. Gradually, these outlets add fixtures and embellishments to their stores to increase their attractiveness for customers. With these additions, prices and status rise (box 2).

    c. As time passes, these outlets add still more services and their prices and status increase even further (box 3).

    d. This opens an opportunity for a new form of retail outlet—a low-price, low-margin, low-status operator (box 4). And the wheel of retailing turns as the cycle starts to repeat itself.

- In the 1955, McDonald offered a limited menu for two meals without any inside seating for customers. Over time, the wheel of retailing has led to new products and services. In 1975, McDonald's introduced the Egg McMuffin and turned breakfast into a fast-food meal.

- Another examples; Jollibee Drive-Thrus that offers basic products in a drive-through window format with no inside seating, and Pepper Lunch, a cook-it-yourself fast-food concept.

B. The Retail Life Cycle

The process of growth and decline that retail outlets, like products, experience is described by the **retail life cycle**. Its four stages are:

- *Early growth*. The retail outlet first emerges, with a sharp departure from existing competition. Market share rises gradually, although profits are low due to start-up costs.

- *Accelerated development*. Market share and profit achieve their greatest growth rates. Multiple outlets are established due to a focus on distribution. Competitors enter. The goal is to have a dominant market share.

- *Maturity*. Some competitors drop out, new retail forms enter, stores try to maintain market share, and price discounting occurs.
- *Decline*. Profit and market share drop. These retailers will need to find ways of discouraging their customers from moving to low-margin, mass-volume outlets or high price, high-service boutiques.

[SLN 17-2: Are There Too Many Retail Stores?]

VI. FUTURE CHANGES IN RETAILING

Three trends in retailing—the growth of multichannel retailing, the increasing impact of technology, the dramatic changes in the way we shop—are likely to lead to many changes for retailers and consumers in the future.

A. Multichannel Retailing

- **Multichannel retailers** will utilize and integrate a combination of traditional store formats and nonstore formats such as catalogs, television, and online retailing.
- Multichannel retailers make shopping simpler and more convenient, reach a broader profile of customers, and benefit from the synergy of sharing information among the different channel operations.

B. The Impact of Technology

- Technology will affect payment methods in the future. Credit cards are likely to be replaced by smart cards, which store information about bank accounts and amounts of available funds, and they will also contain customer purchase information.
- It is already popular in Europe and Asia where more than 33 million smart cards are in use.

LEARNING REVIEW

12. According to the wheel of retailing, when a new retail form appears, how would you characterize its image?

Answer: A low-status, low-margin, low-price outlet.

13. Market share is usually fought out before the ___________ stage of the retail life cycle.

Answer: maturity

14. What is a smart card?

Answer: A card that will replace credit card in the future. It stores information about bank accounts and amounts of available funds, and they will also contain customer purchase information.

APPLYING MARKETING KNOWLEDGE

1. Discuss the impact of the growing number of dual-income households on (*a*) nonstore retailing and (*b*) the retail mix.

Answers:

a. **Nonstore retailing**. Nonstore retailing alternatives such as online retailing are growing as a convenient way for two-income households to shop. Television home shopping and direct mail and catalogs also provide convenient retailing alternatives to these households.

b. **The retail mix**. Retailers will have to adjust their mix in terms of store hours and locations. Working couples may need to shop at less traditional times and in locations convenient from their work location. Also, credit cards and online ordering may become more important because of the time pressure on these types of households.

2. How does value added affect a store's competitive position?

Answer: Value added affects a store's position by focusing on the mix elements other than product line. Elements such as location, reliability, and prestige are key aspects of the value added component.

3. In retail pricing, retailers often have a maintained markup. Explain how this maintained markup differs from original markup and why it is so important.

Answer: Maintained markup differs from original markup in an important way. Maintained markup is the final selling price less retailer's cost. Original markup is the initial selling price less the retailer's cost. Initial markup is what the retailer hopes to get for the product; maintained markup is what the retailer can actually sell an item for to consumers. It must cover costs for a retailer to show a profit.

4. What are the similarities and differences between the product and retail life cycles?

Answers:

a. **Similaries**. The retail and product life cycles are similar in that they consist of four stages over which market share and profit (from sales) are matched. In the first stage of each life cycle, new retail forms or products enter the market. Competition emerges in the second stage, and by the maturity stage the major fighting between competitors has occurred. In decline stage both curves show falls in market share and profit).

b. **Differences**. Differences relate to nomenclature. The first stage of the product life cycle is **introduction** as opposed to the retail life cycle's **early growth**. The second stage of the PLC is **growth** versus the retail life cycle's **accelerated development**.

5. How would you classify Wal-Mart in terms of its position on the wheel of retailing versus that of an off-price retailer?

Answer: Wal-Mart is moving up the wheel of retailing. Wal-Mart has added services. Off-price retailers represent today's low-price, low-margin, low-status new entrant.

6. Develop a chart to highlight the role of each of the four main elements of the retailing mix across the four stages of the retail life cycle.

Answer:

	RETAIL LIFE CYCLE			
RETAIL MIX	**EARLY GROWTH**	**ACCELARATED DEVELOPMENT**	**MATURITY**	**DECLINE**
GOODS AND SERVICES	Offer breadth or depth	Expand line on breadth or depth	Maintain	Shrink to profitable items
PRICING	Skimming pricing	Penetration pricing	Price discounting Flexible-pricing	Bundle pricing Loss-leader pricing
COMMUNICATIONS	Focus on awareness	Highlight competitive advantages	Focus on specials to keep customers	Limited
PHYSICAL DISTRIBUTION	Few locations	Expand number of outlets	Maintain	Shrink number of outlets

7. **In Figure 17-8, Margin Free Market was placed on the retail positioning matrix. What strategies should Margin Free Market follow to move itself into the same position as Tiffany?**

   Answer: To move into the same position as Tiffany, Margin Free Market must increase its value added. Value added could be enhanced with more service to the consumer. In addition, modifying its visual presentation or creating a more exciting atmosphere might change Margin Free Market's position on the value added dimension.

8. **Breadth and depth are two important components in distinguishing among types of retailers. Discuss the breadth and depth implications of the following retailers discussed in this chapter: (*a*) Giordano, (*b*) RT-Mart, (*c*) Nissen Company, and (*d*) Bee Cheng Hiang.**

   Answers:

   a. **Giordano**. Provides great depth and little breadth as to reposition itself from a mass merchandiser.

   b. **RT-Mart. (example cannot be found in text – change to Wal-Mart)**

   c. **Nissen Company**. Provides wide breadth or product lines include clothing, consumer electronics, formal wear, household goods and jewelry.

   d. **Bee Cheng Hiang.** Is a specialty store selling products related to bak kwa only.

9. **According to the wheel of retailing and the retail life cycle, what will happen to factory outlet stores?**

   Answer: Factory outlet retailers will begin to add services, raise their status, and subsequently their margins. This retailing form should hit maturity earlier than previous retailing forms.

10. **The text discusses the development of online retailing in the Asia. How does the development of this retailing form agree with the implications of the retail life cycle?**

    Answer: Men initially more likely than women to buy something online. However, as the number of households increased, the portfolio of online shoppers changed to include all shoppers. The number of online retailers also grew rapidly for several years and then declined as many standalone, internet-only businesses failed or consolidated.

    The balance that retailers now have struck between "bricks and clicks" may signal that online retailing has entered the maturity stage of the retail life cycle after a very short period of time in the early growth and accelerated development stages. Perhaps the maturity stage, with this newfound equilibrium, will last an extended length of time.

BUILDING YOUR MARKETING PLAN

Does your marketing plan involve using retailers? If the answer is no, read no further and do not include a retailing element in your plan. If the answer is yes:

1. **Use Figure 17–7 to develop your retailing strategy by (*a*) selecting a position in the retail positioning matrix and (*b*) specifying the details of the retailing mix.**

2. **Develop a positioning statement describing the breadth of the product line (broad versus narrow) and value added (low versus high).**

3. **Describe an appropriate combination of retail pricing, store location, retail communication, and merchandise assortment.**

Helping with Common Student Problems

The sample marketing plan in Appendix A is intended as a generic model that can apply to all kinds of business and nonprofit organizations—from manufacturers producing physical products and retailers selling goods or services to public health clinics or pre-school programs. Yet the Appendix A sample marketing plan is for a consumer goods manufacturer producing a high quality, physical product. As a result, some sections in the Appendix A plan may be largely irrelevant for a small retailer or a campus nonprofit organization. At the same time, these kinds of operations will have sections unique to their operations and far different from those shown in Appendix A.

SLN 17-1: SUPPLEMENTAL LECTURE NOTE

Franchising Offers Opportunities and Financial, Legal, and Cultural Challenges

Franchising has been described as an almost foolproof way to own and operate a business. Experts estimate that the 760,000 franchised businesses in the U.S. create 18 million jobs and generate $1.5 trillion in economic output! Franchises offer opportunities for entrepreneurs, veterans, and, during economic downturns, people looking for second careers. However, the many financial and legal details of the relationship between franchisors and franchisees can often be confusing and sometimes lead to complaints.

One response has been that Federal Trade Commission passed the Franchise Rule to require franchisors to prepare an extensive disclosure document and to give a copy to any prospective franchise purchaser before he or she buys a franchise. The document, which is called a Uniform Franchise Offering Circular, contains 23 different categories of information about the franchise, including required fees, basic investment, bankruptcy and litigation history, a financial statement of the franchisor, and earnings claims.

Another response has been the International Franchise Association's (IFA) effort to develop a self-regulation program. After discussions with franchisees, franchisors, and franchise suppliers, the IFA approved a five-component model: (1) a code of ethics to provide guidelines regarding honesty, mutual respect, and open communication; (2) a code of enforcement to ensure compliance with the code of ethics; (3) an ombudsman program to resolve disputes between franchisees and franchisors; (4) a reward and recognition program to highlight best practices; and (5) educational programs to provide the franchise community and investors with information about how to evaluate investments and comply with current laws. The IFA hopes that the five components will lead to effective and fair self regulation of its 1,000 franchisors and 30,000 members in order to avoid costly and time consuming litigation and legislation.

The opportunities for international franchising have also grown because consumers around the world recognize the company and brand names as symbols of quality, consistency, service, and value. However, as franchises have moved into international markets, the potential for cultural misunderstandings has grown. Economic uncertainty, currency exchange instability, different intellectual property laws, and even trademark piracy can lead to problems. To avoid cultural misunderstandings, franchise consultants encourage the use of master developers or master franchisers who help understand the local culture.

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Sources: International Franchise Association website (www.franchise.org, March 10, 2008); Elizabeth Lazarowitz, "Franchises Rank High with Biz-Minded Vets," *Daily News* (January 14, 2008), p. 7; Richard Gibson, "Tips On Picking A Franchise Business That Will Weather an Economic Downturn," *The Wall Street Journal* (February 12, 2008), p. B5; Erika D. Smith, "Franchises Offer Benefits, Drawbacks for Entrepreneurs," *Akron Beacon Journal* (May 17, 2004); and Eve Tahmincioglu, "It's Not Only the Giants With Franchises Abroad," *The New York Times* (February 12, 2004), p. 4.

SLN 17-2: SUPPLEMENTAL LECTURE NOTE

Are There Too Many Retail Stores?

The past decade has seen a frenzy of new retail space construction, from large enclosed malls, to outdoor strip malls to ground-floor boutiques in residential and office buildings. In 2008 alone, U.S. retailers completed 34 million square feet of new retail space. Now some experts are suggesting that the marketplace is "over-stored."

Some retailers may agree. Consider the following:

- Liz Claiborne is closing 54 of its Sigrid Olsen stores.
- Ann Taylor is closing 117 of its 921 stores.
- Talbots is closing 78 of its stores.
- Pacific Sunwear of California is closing 173 of its stores.
- Zale is closing 60 of its 2200 stores.
- Sprint Nextel is closing 125 of its stores.
- Ethan Allen Interiors is closing 12 of its 165 company-owned stores.

In addition, Sears Holdings Corp, which also owns Kmart, announced a reorganization that includes a real estate holding unit. Some retailing observers anticipate that that the company will use the new unit to sell property as it closes stores.

Other retailers, however, are building new stores. Blue Cross and Blue Shield, for example, is building new retail stores to sell its products directly to consumers. Similarly, Apple, which is now one of the most successful retailers in the U.S., is planning to open up 50 more stores.

Part of the explanation is the impact of economic trends. Consumer spending in some product categories has declined dramatically, while spending in other categories has not changed. The National Retail Federation predicts that total retail spending will continue to grow at a declining rate. Another influence is the growth of e-commerce and online retail sales, which now account for approximately 7 percent of all retail sales.

Watch for indications of some of these changes in your market. Have some stores closed? Opened? Have you shifted some of your shopping from stores to online options? While some retailers are certainly "over-stored" others are not, and consumer's interests will help reshape the retail marketplace to something new and exciting!

Sources: Daniel Gross, "America the Over-Stored," *Newsweek*, February 25, 2008, p. 16; Frank Byrt, "Spending Slump Leads to Closures," *Crain's Chicago Business*, February 4, 2008, p. 17; "Contraction, Cutbacks Are In This Season," *St. Petersburg Times*, January 22, 2008, p 16A; Nathan Conz, "A New Channel—Blue Cross and Blue Shield of Florida Crates Retail Stores," *Insurance and Technology*," March 1, 2008, p. 12; and http://www.ifoapplestore.com/, March 5, 2008.