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RETAILING MANAGEMENT

Levy
Weitz
Grewal

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TENTH EDITION

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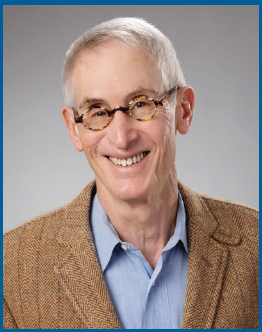
To our families for their never-ending support.

To my wife, Marcia, my daughter, Eva, and
my son-in-law, Alex. —Michael Levy

To my wife, Shirley. —Bart Weitz

To my wife, Diana, and my children,
Lauren and Alex. —Dhruv Grewal

ABOUT THE AUTHORS



Michael Levy
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Michael Levy, PhD (Ohio State University), is the Charles Clarke Reynolds Professor of Marketing Emeritus at Babson College and CEO of RetailProf LLC. He received his PhD in business administration from Ohio State University and his undergraduate and MS degrees in business administration from the University of Colorado at Boulder. He taught at Southern Methodist University before joining the faculty as professor and chair of the marketing department at the University of Miami.

Professor Levy received the inaugural ACRA Academic Lifetime Achievement Award presented at the 2015 AMA/ACRA (American Marketing Association/American Collegiate Retailing Association) Triennial Conference, and was recognized for 25 years of dedicated service to the editorial review board of the *Journal of Retailing* in 2011. He won the McGraw-Hill Corporate Achievement Award for Grewal–Levy *Marketing 2e* with Connect in the category of excellence in content and analytics (2010); Revision of the Year for *Marketing 2e* (Grewal–Levy) from McGraw-Hill/Irwin (2010); the 2009 Lifetime Achievement Award, American Marketing Association, Retailing Special Interest Group (SIG); the Babson Faculty Scholarship Award (2009); and the Distinguished Service Award, *Journal of Retailing* (2009) (at winter AMA).

He was rated as one of the best researchers in marketing in a survey published in *Marketing Educator* (Summer 1997). He has developed a strong stream of research in retailing, business logistics, financial retailing strategy, pricing, and sales management. He has published over 50 articles in leading marketing and logistics journals, including the *Journal of Retailing, Journal of Marketing, Journal of the Academy of Marketing Science,* and *Journal of Marketing Research.* He has served on the editorial review boards of the *Journal of Retailing, Journal of the Academy of Marketing Science, International Journal of Physical Distribution and Materials Management, International Journal of Business Logistics, ECR Journal,* and *European Business Review,* and has been on the editorial advisory boards of *European Retail Research* and the *European Business Review.* He is coauthor of *Marketing 6e* (2018). Professor Levy was coeditor of the *Journal of Retailing* from 2001 to 2007. He cochaired the 1993 Academy of Marketing Science conference and the 2006 summer AMA conference.

Professor Levy has worked in retailing and related disciplines throughout his professional life. Prior to his academic career, he worked for several retailers and a housewares distributor in Colorado. He has performed research projects with many retailers and retail technology firms, including Accenture, Federated Department Stores, Khimetrics (SAP), Mervyn's, Neiman Marcus, ProfitLogic (Oracle), Zale Corporation, and numerous law firms.

Barton A. Weitz
Courtesy of Benjamin Simons, UF Warrington College of Business

Barton A. Weitz, PhD, received an undergraduate degree in electrical engineering from MIT and an MBA and a PhD in business administration from Stanford University. He has been a member of the faculty at the UCLA Graduate School of Business and the Wharton School at the University of Pennsylvania and is presently the JCPenney Emeritus Eminent Scholar Chair in Retail Management in the Warrington College of Business Administration at the University of Florida.

Professor Weitz is the founder of the David F. Miller Center for Retailing Education and Research at the University of Florida. The activities of the center are supported by contributions from 35 retailers and firms supporting the retail industry, including JCPenney, Macy's, Walmart, Office Depot, Walgreens, Home Depot, and the International Council of Shopping Centers. Each year, the center places more than 250 undergraduates in paid summer internships and management trainee positions with retail firms, and funds research on retailing issues and problems.

Professor Weitz has won awards for teaching excellence and made numerous presentations to industry and academic groups. He has published more than 50 articles in leading academic journals on channel relationships, electronic retailing, store design, salesperson effectiveness, and sales force and human resource management. His research has been recognized with two Louis Stern Awards for his contributions to channel management research and a Paul Root Award for the *Journal of Marketing* article that makes the greatest contribution to marketing practice. He serves on the editorial review boards of the *Journal of Retailing, Journal of Marketing, International Journal of Research in Marketing,* and *Journal of Marketing Research.* He is a former editor of the *Journal of Marketing Research.* Professor Weitz has been the chair of the American Marketing Association and a member of the board of directors of the National Retail Federation and the American Marketing Association. He was honored as the AMA/Irwin Distinguished Educator in recognition of his contributions to the marketing discipline. He was selected by the National Retail Federation as Retail Educator of the Year and been recognized for lifetime achievements by American Marketing Association Retailing, Sales, and Inter-Organizational Special Interests Groups.

Dhruv Grewal
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Dhruv Grewal, PhD (Virginia Tech), is the Toyota Chair in Commerce and Electronic Business and a professor of marketing at Babson College. He is listed in The World's Most Influential Scientific Minds, Thomson Reuters 2014 (only 8 from the marketing field and 95 from economics and business are listed). He was awarded the 2013 university-wide Distinguished Graduate Alumnus from his alma mater, Virginia Tech, the 2012 Lifetime Achievement Award in Pricing (AMA Retailing & Pricing SIG), the 2010 Lifetime Achievement Award in Retailing (AMA Retailing SIG), the 2010 AMS Cutco/Vector Distinguished Educator Award, and the 2005 Lifetime Achievement in Behavioral Pricing Award (Fordham University, November 2005). He is a Distinguished Fellow of the Academy of Marketing Science. He was ranked first in the marketing field in terms of publications in the top-six marketing journals during the 1991–1998 period and again for the 2000–2007 period. He ranked eighth in terms of publications in the *Journal of Marketing* and the *Journal of Marketing Research* during the 2009–2013 period and ranked seventh in terms of publications in the *Journal of Public Policy & Marketing* for the period 1992–2001. He was also ranked first in terms of publications and third in citations for pricing research for the time period 1980–2010 in 20 marketing and business publications. He has served as VP, research and conferences, American Marketing Association Academic Council (1999–2001), and as VP, development for the Academy of Marketing Science (2000–2002). He was coeditor of *Journal of Retailing* from 2001 to 2007. He cochaired the 1993 Academy of Marketing Science Conference, the 1998 Winter American Marketing Association Conference, the 2001 AMA doctoral consortium, the American Marketing Association 2006 Summer Educators Conference, the 2011 DMEF research summit, and the 2012 and 2015 AMA/ACRA Retailing Conference.

Professor Grewal has published over 140 articles in journals such as the *Journal of Retailing, Journal of Marketing, Journal of Consumer Research, Journal of Marketing Research, Journal of Consumer Psychology, Journal of Applied Psychology,* and *Journal of the Academy of Marketing Science,* as well as other journals. He currently serves on numerous editorial and advisory review boards, such as the *Journal of Retailing, Journal of Marketing* (area editor), *Journal of Marketing Research, Journal of Consumer Psychology, Journal of the Academy of Marketing Science* (area editor), *Academy of Marketing Science Review, Journal of Interactive Marketing, Journal of Business*

Research, and *Journal of Public Policy & Marketing*. He has over 35,000 citations based on Google scholar.

Professor Grewal has won a number of awards for his teaching: 2005 Sherwin-Williams Distinguished Teaching Award, Society for Marketing Advances; 2003 American Marketing Association Award for Innovative Excellence in Marketing Education; 1999 Academy of Marketing Science Great Teachers in Marketing Award; Executive MBA Teaching Excellence Award (1998); School of Business Teaching Excellence Awards (1993, 1999); and Virginia Tech Certificate of Recognition for Outstanding Teaching (1989). He has won numerous awards for his research: 2016 *Journal of Marketing* Sheth Award; William R. Davidson *Journal of Retailing* Best Paper Awards 2010, 2012, and 2016; Luis W. Stern Awards 2011 and 2015 (AMA IO Sig); William R. Davidson *Journal of Retailing* Honorable Mention Awards 2010 and 2011; Babson College Faculty Scholarship Award (2010 and 2015); University of Miami School of Business Research Excellence Award for the years 1991, 1995, 1996, and 1998; Best Services Paper Award (AMA Services SIG 2002); Stanley C. Hollander Best Retailing Paper (AMS 2002 and 2008); and M. Wayne DeLozier Best Conference Paper (AMS 2002 and 2008). He also received Best Reviewer Awards (*Journal of Retailing* 2008, *Journal of Marketing* 2014), best area editor (*Journal of the Academy of Marketing Science* 2016), and a Distinguished Service Award (*Journal of Retailing* 2009).

Professor Grewal has taught executive seminars and courses and/or worked on research projects with numerous firms such as Dell, ExxonMobil, IRI, Radio Shack, Telcordia, Khimetriks, Profit-Logic, McKinsey, Ericsson, Motorola, Nextel, FP&L, Lucent, Sabre, Goodyear Tire & Rubber Company, Sherwin-Williams, and Asahi. He has delivered seminars in the United States, Europe, Latin America, and Asia. He has also served as an expert witness and worked as a consultant on numerous legal cases.

PREFACE

We are excited to bring you the tenth edition of *Retailing Management*. It has been four years since our last revision, and as you know, a lot has changed, and *Retailing Management* has changed with it.

This tenth edition of *Retailing Management* builds on the basic philosophy of the previous nine editions. We continue to focus on both strategic and tactical issues, with an emphasis on financial considerations and implementation through merchandise and store management.

NEW TO THE TENTH EDITION

Chapter 1, "Introduction to the World of Retailing," begins with discussion of two retail giants, Amazon and Walmart, and the struggle Walmart is facing in competing with the online retailer and its efficient supply chain and fulfillment capabilities, its vast inventory, and its recommendation algorithms. A new section on corporate social responsibility and conscious marketing's four overriding principles provides further insight into what makes a successful retailer. In addition, a new Retailing View highlights how innovative mobile payment systems are improving the lives of Africa's working poor.

Chapter 2, "Types of Retailers," opens with a brief vignette on the challenges faced by both Sam's Club and Walmart as they work to avoid cannibalizing upon one another. In addition, the newest trends in supermarket retailing are discussed, shedding light on food retailers' efforts to go above and beyond traditional store sales, including a new section on online grocery sales by traditional full-line discount stores, supermarkets that offer new, unexpected services, and the rise of limited-assortment and extreme-value food retailers. A new section on flash sale sites is also included, as are new Retailing Views about online grocery retailer FreshDirect; Macy's quest to combat sales declines and leverage both its existing advantages and new retail options; how Sephora has revolutionized the cosmetics industry; and McDonald's primary business model of franchising and the reciprocity of allegiance between the company and its franchisees.

Chapter 3, "Multichannel and Omnichannel Retailing," has been retitled to reflect the many ways in which retailing is available to consumers, and a revised set of learning objectives provides further ease of use and understanding of important chapter concepts. A new introduction looks at the way Rebecca Minkoff has integrated the in-store experience through the use of mobile devices. A new section elaborates on the types of retail channels that help define *omnichannel*, as well as each channel's benefits. New Retailing Views focus on Sephora's To Go app, Apple and the omnichannel experience; and retailer Warby Parker.

Chapter 4, "Customer Buying Behavior," opens with a short vignette about the many ways Macy's is wooing Millennials. In addition, new coverage of retailers' *and* consumers' reliance on mobile devices shows just how integral this technology has become—from checking inventory and creating virtual outfits to using apps that ease the purchasing of merchandise. New Retailing Views cover CVS's decision to ban the sale of cigarettes in its locations; H&M's effective segmentation strategy; how one regional Texas grocery chain attracts and retains customers; and the rise of fast fashion among Generation Z consumers.

Chapter 5, "Retail Market Strategy," opens with a discussion of the ways in which retailers are enticing customers to spend time in their stores to increase consumer spending by providing a range of unique in-store experiences. New sections on specific retailers' market strategies include those utilized by both Sephora and Lululemon.

New details are included about the various ways in which customer loyalty is achieved by retailers, as well as the opportunities and challenges of retail markets in India, China, and Russia. New Retailing Views include Whole Foods's efforts to promote sustainability and responsibility; the surprising success of Starbucks in Italy; Uniqlo's dual marketing strategy of quality and affordability.

Chapter 6, "Financial Strategy," begins with a discussion of the marketing and operations issues that impact financial performance for some of the world's best retailers. New sections provide easy-to-understand information on how the very different strategies of Nordstrom and Walmart translate into their financial performance, using the strategic profit model and its component financial ratios, net profit margin percentage, asset turnover, and return on assets. Further discussion on how other important financial ratios, such as gross margin, operating profit percentage, and inventory turnover, are used to make and evaluate both strategic and tactical decisions is presented. New examples throughout, combined with new and revised key terms written at a level students will understand, are designed to address these important, yet often difficult factors in measuring retailing success and failure. New Retailing Views discuss how Nordstrom and Walmart achieve success using differing retail strategies, how omnichannel retailers calculate profits of online and in-store sales, and the challenges of crowdfunding in retail operations.

Chapter 7, "Retail Locations," opens with a discussion of the challenges faced by malls and the ways in which malls are reinventing themselves to keep pace with customer demands. A new section on urban areas details the ways retailers address their customers' needs, and a new section on food deserts within inner cities discusses how retailers are addressing customers' basic needs. In addition, new content on the rise of nontraditional stores discusses how outlet centers, pop-up stores, and stores-within-stores have all become popular locations for retailers. A new Retailing View discusses how Apple is increasing mall foot traffic and becoming the new mall "anchors," and updates to existing Retailing Views provide critical new information about their respective topic.

Chapter 8, "Retail Site Location," begins with a discussion of Starbucks's perfection of Geographic Information Systems in planning new locations and expanding menu options worldwide. There is new content on how the increased importance of online and mobile impacts retail location decisions. A new Retailing View covers Lululemon and its location strategy, and an updated Retailing View discusses the importance of the "right" location for Speedway.

Chapter 9, "Information Systems and Supply Chain Management," opens with an example of fast fashion from retailer Zara and highlights how the company has thrived as a result. Updates underscore the role of the wholesaler in the supply chain; the benefits and limitations of vendor-managed inventory; and the flow of merchandise through a supply chain. The chapter ends with a discussion of system trends, with updated information on RFIDs and an example of their successful implementation, as well as customer store pickup through the use of mobile task management technology. New Retailing Views cover grocery giant Kroger's partnership with a particular supply chain for training purposes; how IKEA produces high-quality, low-cost furniture through its supply chain efficiency; and how robots are used to ensure that a store's products get to its intended customers.

Chapter 10, "Customer Relationship Management," begins with a look into grocery retailer Kroger's management of customer relationships, which has earned the chain the highest loyalty program participation rates in the grocery industry. New content on protecting customer privacy showcases the ways in which retailers can increase customers' confidence, as well as new information on the ways in which retailers are responding to unprofitable customers. New Retailing Views highlight how CVS uses customer loyalty data; how Whole Foods utilizes its loyalty program by offering personalized rewards; and how Staples is targeting the small-business owner with an app.

Chapter 11, "Managing the Merchandise Planning Process," has been retitled to be more descriptive of its content. The chapter begins with a discussion of the way in which Target and other stores are using nontraditional stocking techniques to increase sales. More explanation of GMROI is included, as well as the ways in which retailers perform market research. A new Retailing View covers Macy's use of predictive analytics in learning more about its customers and improving their online experience; updated Retailing Views elaborate on how the Weather Channel is marketing its weather analytics to retailers and how Saks Fifth Avenue learned from its price-cutting mistake following the most recent recession.

Chapter 12, "Buying Merchandise," opens with a discussion of how many national and worldwide chains use local appeal to attract customers. An updated section on how store-brand merchandise is developed and sourced is included, as well as updated content on how brands are taking legal action against counterfeiters and more examples of corporate social responsibility. A new Retailing View highlights the benefits of manufacturing in Africa.

Chapter 13, "Retail Pricing," begins with an overview of the "battle" in the pizza industry to keep prices low and increase sales and market share. In addition, an updated section on pricing techniques provides clear explanations of dynamic pricing and predatory pricing. New Retailing Views focus on Walmart's entry into the organic food market with its EDLP strategies, Disney and Universal's pricing plans, Amazon's daily price changes based on algorithms that provide insight into consumers' demands, and the unethical practice of deceptive reference pricing among some of the retail giants.

Chapter 14, "Retail Communication Mix," begins with a look at H&M's unconventional advertising as the company seeks to showcase its offerings in unique ways. A revised set of learning objectives provides further ease of use and understanding of important chapter concepts. New coverage of mobile marketing shows that these devices are being used by retailers. New Retailing Views cover the ways in which some European fashion multichannel retailers are appealing to their target markets using a combination of social media and print publishing, often including items they do not carry but which appeal and attract customers' attention; Domino's use of Snapchat as a marketing tool to entice customers; online versus print coupons and the rise of rebate apps; and the ways in which Hispanic consumers have become one of the most prominent, growing, and appealing targets for retailers.

Chapter 15, "Human Resources and Managing the Store," has been combined with the ninth edition's Chapter 9 on human resource management and retitled to reflect the inherent implementation issues associated with these two topics. A new introduction shows how Zappos's philosophy and strong leadership equals happy employees, and a revised set of learning objectives hones in on the most important chapter concepts. New material focuses on the benefits and drawbacks of using social media to research prospective employees, as well as the ways in which companies are rewarding and motivating their employees. New Retailing Views discuss the ways in which retailers are recruiting Millennials; one grocery chain's unique ownership structure that gives employees rewards for store performance; shifts in employee dress codes in response to changing cultural and social norms; and the laws that prohibit employers from altering employees' schedules without compensation.

Chapter 16, "Store Layout, Design, and Visual Merchandising," begins with the story of Bergdorf Goodman's New York City renovation and its quest to combine classical luxury and modern (social media) chic. New material on store design elements provides updated information on grid layout, how to attract supermarket shoppers to the center store, and the ways in which retailers are utilizing dressing rooms and the rising importance of virtual dressing rooms. New Retail Views cover the importance of function and experience for customers at Saks Fifth Avenue's new stores and its Off 5th outlet stores; the interesting ways in which retailers are catering to customers' impulse purchases; and retailers' use of scents to attract customers.

Chapter 17, "Customer Service," opens with the latest innovations by Rent the Runway to give customers perfectly fit clothing at affordable prices. New material is included on the ways in which retailers provide exceptional customer service, both in-store and online; the rise of standardized service; and the importance of social media in learning about customer expectations and perceptions. New Retailing Views focus on the ways in which Home Depot is renovating its stores to appeal to female consumers; grocery giant Kroger's use of analytics to reduce customers' wait time at registers; and Sprint's use of customer service robots in Japan.

A LETTER FROM THE AUTHORS

This text is organized around a model of strategic decision making outlined in Chapter 1. Each section and chapter relates back to that overarching strategic framework. To keep students engaged with this focus, we offer the following features:

- Introductory vignettes—Each chapter begins with an example of how a stellar retailer is particularly successful by excelling in the subject area for that particular chapter.
- Retailing Views—Each chapter contains new and updated "stories" that describe how particular retailers deal with the issues raised in each chapter. The majority of these Retailing Views are new in this edition.
- New cases—In Section 5, there are seven new cases and updates to existing cases.
- Graphics—Exhibits in each chapter provide critical, up-to-date information and lively visuals. Almost all of the photos are new to this edition.
- Streamlining—To facilitate student learning, we have streamlined the presentation, both visually and pedagogically. Based on reviewer comments, we have combined the chapters on human resource management and managing the store. In keeping with our goal of providing a "good read" for students, we continue to substantiate conceptual material with interesting, current, "real-world" retailing examples.
- Updating—Every example, fact, and key term has been checked, updated, and/or replaced.

In preparing this edition, we focused on five important factors that continue to delineate outstanding retailers:

- The use of big data and analytical methods for decision making.
- The application of social media and mobile for communicating with customers and enhancing their shopping experience.
- The issues involved in utilizing a mobile channel and providing a seamless multichannel experience for customers.
- The engagement in the overarching emphasis on conscious marketing and corporate social responsibility when making business decisions.
- The impact of globalization on the retail industry.

We realize that retailing is taught in a variety of formats, both face-to-face and online, so a comprehensive supplemental package for instructors is provided. In addition to the Connect materials described on the following pages and the comprehensive online Instructor's Manual with additional cases and teaching suggestions, we provide the following:

- **Get Out and Do It!** exercises at the end of each chapter. These exercises suggest projects that students can undertake by visiting local retail stores or surfing the Internet. A continuing assignment exercise is included so that students can engage in an exercise involving the same retailer throughout the course. The exercises are designed to provide a hands-on learning experience for students.
- **Authors' blog at theretailingmanagement.com** includes summaries and discussion questions of recent retailing articles from the business and trade presses. These articles are associated with specific chapters so that instructors can use them to stimulate class discussion.

We hope you and your students will enjoy the tenth edition of *Retailing Management*. Let us know what you think!

Michael, Bart, and Dhruv

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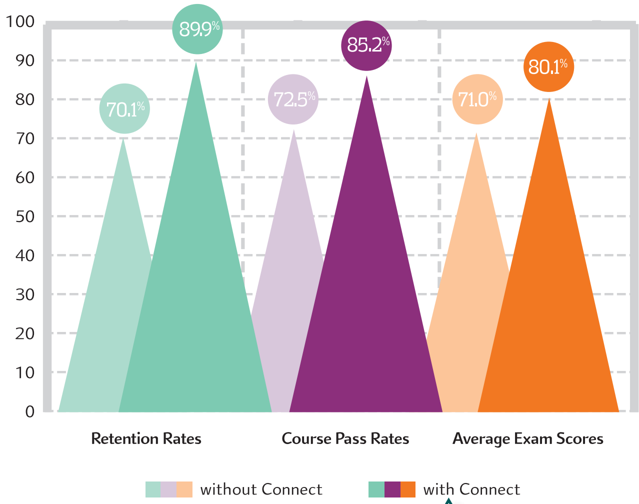

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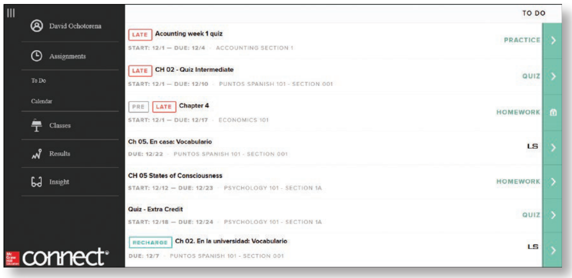

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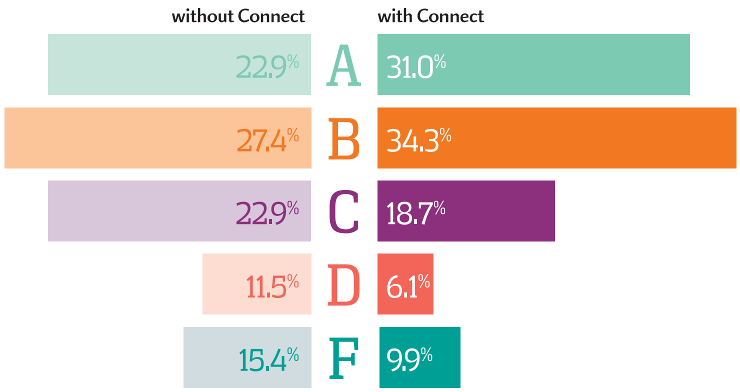

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- If you're looking for some guidance on how to use Connect, or want to learn tips and tricks from super users, you can find tutorials as you work. Our Digital Faculty Consultants and Student Ambassadors offer insight into how to achieve the results you want with Connect.

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RETAILING MANAGEMENT

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SECTION I

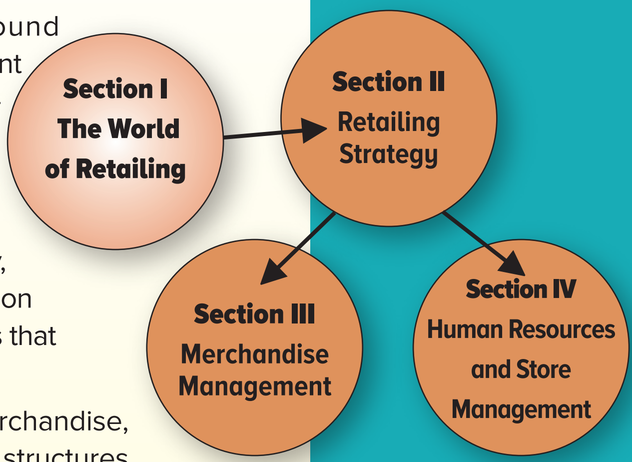
CHAPTER ONE
Introduction to the World of Retailing

CHAPTER TWO
Types of Retailers

CHAPTER THREE
Multichannel and Omnichannel Retailing

CHAPTER FOUR
Customer Buying Behavior

The World of Retailing



The chapters in Section I provide background information about the types of retailers, the different channels they use, their customers and competitors—information that can be used to develop and implement an effective retail strategy.

Chapter 1 describes the importance of the retail industry to the U.S. economy and, more generally, to society as a whole. It also details the organization of this book, which revolves around the decisions that retailers make to satisfy their customers' needs.

Chapter 2 describes different types of food, merchandise, and service retailers, as well as their ownership structures.

Chapter 3 examines the channels that retailers use to satisfy the needs of their customers and the challenges they face in coordinating these multiple channels—stores, the Internet/mobile/social, and catalogs—when interacting with their customers.

Chapter 4 discusses the process that consumers go through when choosing retail outlets and channels to buy merchandise and how retailers can affect this buying process.

The chapters in Section II focus on the decisions retailers make to develop strategic assets—assets that enable retailers to build sustainable competitive advantages.

The chapters in Sections III and IV explore more tactical execution decisions involving merchandise and store management.

CHAPTER 1 | Introduction to the World of Retailing

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO 1-1 Identify retailing activities.

LO 1-2 Realize the importance of retailing in the U.S. and world economies.

LO 1-3 Analyze the changing retail industry.

LO 1-4 Recognize the opportunities for you in retailing.

LO 1-5 Understand the strategic retail management decision process.

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About 15 years ago, Walmart committed itself to Internet retailing. This year, it made the same commitment.[1] But the environments surrounding these similar announcements differ radically from each other. In particular, a couple of decades ago Amazon was just a small annoyance, totally dominated by Walmart's superior reach, sales, distribution capabilities, and revenue. Today, however, Amazon has overtaken Walmart in terms of its stock market value,[2] and it appears well positioned to compete in the digital marketplace, whereas Walmart continues to seek a firm toehold in the online realm.

Walmart certainly is not alone in struggling to compete with Amazon. Virtually every retailer in the world competes in some way with the online giant, because of what Amazon offers.[3] First, Amazon is incredibly convenient, available to meet shoppers' every product need, at any time. As a result, many shoppers use the site almost like a search engine. According to one recent survey, a remarkable 39 percent of consumers started looking for a product they wanted to buy by visiting Amazon first.[4] Second, it is increasing its remarkable availability even further, such as with its expansion into services and its introduction of new tools and channels to help customers interact with it more often.[5] Third, just in case people want to interact personally, Amazon is gaining steam as a brick-and-mortar retailer as well.[6] But the direct comparison with Walmart offers the largest and most prominent example of how Amazon has transformed the retail landscape. In addition to its long-standing advantages—efficient supply chain, vast inventory unlimited by any reliance on square footage in stores, and an enviable recommendation algorithm—Amazon continues to invest heavily in its fulfillment capabilities. By achieving the ability to offer same-day and next-day delivery regularly,[7] Amazon has become a primary source that consumers rely on to meet their immediate consumption needs.

In contrast, Walmart's dominance has been predicated on its reputation for low prices and its excellent distribution network to stores. That is, Walmart's famed logistics capabilities have allowed it to get products from distribution centers onto store shelves more efficiently than virtually any other retailer. However, it lacks the skills and logistics ability to move those products from its online fulfillment centers to customers' homes. In contrast, Amazon's branded boxes are a frequent sight on consumers' front stoops. Amazon even got the U.S. Postal Service to deliver on Sundays—the first time the storied federal agency ever agreed to do so.[8]

Furthermore, Walmart's low price reputation is being challenged by Amazon too. Unscientific experiments show that the two retailers vary in which one offers the lowest price on any particular product. Amazon also changes its prices constantly, such that on any given day, 15 to 18 percent of the products for sale on its site feature different prices than the day before.[9] Thus, a direct price comparison is difficult. However, the overall notion that Walmart has long tried to develop—namely, that it would always be the place where consumers could find the lowest prices—no longer holds for many shoppers.[10] They might be able to find the lowest price at Walmart, but the substantial price transparency of the Internet means that they can always click around to see if they might find a better deal elsewhere—like Amazon. With its extensive infrastructure, Walmart also cannot change prices as flexibly and readily as an online competitor. When it considers doing so, it also has to address the potential cannibalization effects on its sibling company Sam's Club, such that if it competes too hard with its warehouse club, the corporation as a whole might suffer.[11]

In a sense, Walmart's dedication to online retail might be too little, too late. It spent years focused on ensuring its dominance in physical logistics channels, but in some ways, those investments have already grown outdated. By the same token, Walmart recognizes that it cannot simply ignore the online channel. It claims that shoppers actually want a hybrid offering, such that they can order online and pick up items in stores if need be. Beyond these benefits for consumers, Walmart is working to improve the contributions it makes to society more broadly, to ensure that it is a valuable member of the economy. Along these lines, it has committed to ambitious ecological standards in its operations, better animal welfare requirements for its supply chain, and hourly wages for employees that are higher than the mandated minimum wage.[12] By appealing to consumers along these lines, Walmart might be able to differentiate itself, such as by highlighting its role as a major employer in local areas. In that case, Walmart can leverage its existing advantages into the future as well. Yet Amazon is not going anywhere. If Walmart plans to continue to compete effectively with it, it needs to keep on committing to its online strategy.

Retailing is such a common part of our everyday lives that we often take it for granted. For most people, retailers simply are places to buy things. At a very young age, children know what stores have the things they want, and they expect to find the products they want when they visit a store or website. Sometimes consumers talk to a sales associate when they visit a store, and other times the only retail employees they interact with are cashiers collecting the money for purchases. Some college students work part time or over the holidays for retailers and have a somewhat deeper insight into what retailers do. But these limited exposures to retailing are just the tip of the iceberg. Behind the stores, websites, sales associates, and cashiers are an army of managers responsible for making sure that the products and services that people want are available when they want them, where they want them, and at a fair price.

To illustrate further just how big that iceberg below the surface can be, consider Walmart. It stocks and sells 120,000 different products, chosen from among the literally millions of potential options that inventory managers consider every year. Managers at Walmart must determine which subsets of these 120,000 items they will offer, in which stores, which include 11,545 locations all around the world, as well as on the Walmart website. Having selected which products to stock, managers must negotiate the prices that Walmart will pay to procure these products from more than 10,000 suppliers. Next they need to determine the prices they will charge their customers. Together with pricing decisions, Walmart managers determine how to present and display the 120,000 products in stores and on the retailer's website. In addition to selecting products, managers are responsible for selecting, training, and motivating the company's 2.3 million store employees to ensure that they work to keep shelves well stocked, display the merchandise attractively, and provide customers with the service they expect. Finally, perhaps most importantly, Walmart's managers develop and implement strategies to guide their decisions and provide good returns to stockholders, even while facing intense and increasing competition in retail markets.[13]

Working in this highly competitive, rapidly changing retail environment is both challenging and exciting, and it offers significant financial rewards. This book describes the world of retailing and offers key principles for effectively managing retail businesses. Knowledge of retailing principles and practices will help you develop management skills for many business contexts. For example, retailers are customers of many business-to-consumer (B-to-C) companies, such as Procter & Gamble (P&G) and Hewlett-Packard (HP). That means that even in B-to-C companies, which seemingly would focus mainly on consumers, brand managers need a thorough understanding of how retailers operate and make money so that they can encourage retailers to offer and promote their products. Financial and health care institutions use retail principles to develop their offerings; improve customer service; and provide convenient, easy access to their customers. Any student interested in professional B-to-C selling, marketing management, or finance should find this book useful.

WHAT IS RETAILING?

LO 1-1

Identify retailing activities.

Retailing is the set of business activities that adds value to 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 such as overnight lodging in a motel, a doctor's exam, a haircut, or a home-delivered pizza. Not all retailing is done in stores. Examples of nonstore retailing include ordering a T-shirt on your mobile phone app, buying cosmetics from an Avon salesperson, ordering hiking boots from an L.L.Bean catalog, and streaming a movie through Amazon Prime.

The Retailer's Role in a Supply Chain

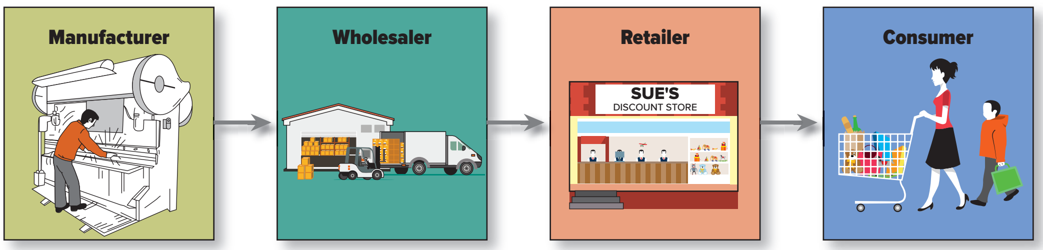
A **retailer** is a business that sells products and/or services to consumers for their personal or family use. Retailers are a key component in a supply chain that links manufacturers to consumers. A **supply chain** is a set of firms that make and deliver goods and services to consumers. Exhibit 1–1 shows the retailer's position within a supply chain.

Retailers typically buy products from wholesalers and/or manufacturers and resell them to consumers. Why are retailers needed? Wouldn't it be easier and cheaper for consumers to cut out the intermediaries (i.e., wholesalers and retailers) and buy directly from manufacturers? The answer, generally, is no because retailers add value and are more efficient at adding this value than manufacturers or wholesalers.

Retailers Create Value

The value-creating activities undertaken by retailers include (1) providing an assortment of products and services, (2) breaking bulk, (3) holding inventory, and (4) providing services.

EXHIBIT 1–1 Example of a Supply Chain



Providing Assortments Conventional supermarkets typically carry about 30,000 different items made by more than 500 companies. Offering an assortment enables customers to choose from a wide selection of products, brands, sizes, and prices at one location. Manufacturers specialize in producing specific types of products. For example, Frito-Lay makes snacks, Yoplait makes yogurt, Skippy makes peanut butter, and Heinz makes ketchup. 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 the groceries needed to prepare a single meal.

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Retailers add value by providing an assortment of products that customers can buy at one location when they want them.

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—an activity called **breaking bulk**. Breaking bulk is important to both manufacturers and consumers. It allows manufacturers to produce and ship merchandise efficiently and in larger quantities at one time, but it enables consumers to purchase the specific merchandise they want in smaller, more useful quantities.

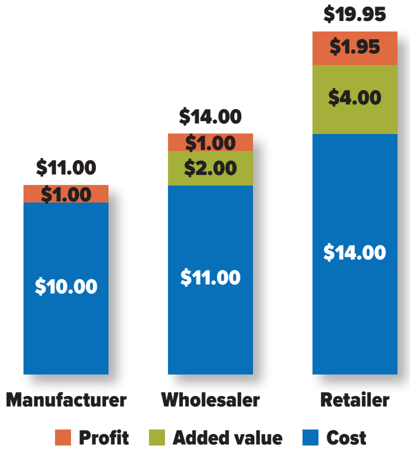
Holding Inventory A major value-providing activity performed by retailers is **holding inventory** so that products will be available when consumers want them. Thus, consumers can keep a smaller inventory of products at home because they know local retailers will have the products available when they need more. This activity is particularly important to consumers with limited storage space, such as families living in small apartments.

Providing Services Retailers provide services that make it easier for customers to buy and use products. For example, retailers offer credit so that consumers can have a product now and pay for it later. They display products so that consumers can see and test them before buying. Some retailers employ salespeople in stores or maintain websites to answer questions and provide additional information about the products they sell.

Costs of Channel Activities

While the value-creating activities undertaken by channel members provide benefits to customers, they also increase the cost of products and services. Exhibit 1–2 illustrates the supply chain costs of getting a T-shirt from the manufacturer to the consumer. In this example, it costs the T-shirt manufacturer $10.00 to make and market the T-shirt. These costs include the design, raw materials, labor, production equipment, transportation to the wholesaler, and so on. The manufacturer sells the T-shirt to the wholesaler for $11.00 and makes $1.00 profit. The wholesaler incurs $2.00 in costs to handle and store the T-shirt and transport it to the retailers. The wholesaler sells the T-shirt to the retailers for $14.00, making a $1.00 profit. The retailer then incurs costs to fold the shirt, put price tags on it, store it, employ sales associates, light and air condition the store, and so on. The retailer sells the shirt to a customer for $19.95, making a profit of $1.95.

EXHIBIT 1–2
Costs of Value-Added Activities in the Distribution Channel for a T-Shirt



Note that the costs in the supply chain, $8.95 ($19.95– $11.00), are almost as much as the cost to make the product. These costs are justified by the considerable value added by the wholesaler and retailers to the product. By providing assortments, breaking bulk, holding inventory, and providing services, retailers increase the benefits that consumers receive from their products and services.

Consider a T-shirt in a shipping crate in an Iowa manufacturer's warehouse. The T-shirt will not satisfy the needs of a student who wants to have something to wear at the basketball game tonight. The student finds the T-shirt more valuable and will pay more for it if it is available from a nearby department store that also sells pants, belts, and other items complementing the T-shirt and provides sales associates who can help the student find what she or he likes. If retailers did not provide these benefits, wholesalers or manufacturers would have to provide them, and they would typically not be as efficient as retailers in providing these benefits.

Retailers Perform Wholesaling and Production Activities

Wholesalers buy and store merchandise in large quantities from manufacturers and then resell the merchandise (usually in smaller quantities) to retailers. When manufacturers like Apple and Nike sell directly to consumers, they are performing the production, wholesaling, and retail business activities. Some large retailers, like Costco and Home Depot, function as both retailers and wholesalers: They perform retailing activities when they sell to consumers, but they engage in wholesaling activities when they sell to other businesses, such as restaurants or building contractors.

In some supply chains, the manufacturing, wholesaling, and retailing activities are performed by independent firms, but most supply chains feature some vertical integration. **Vertical integration** means that a firm performs more than one set of activities in the channel, as occurs when a retailer engages in wholesaling activities by operating its own distribution centers to supply its stores. **Backward integration** arises when a retailer performs some wholesaling and manufacturing activities, such as operating warehouses or designing private-label merchandise. **Forward integration** occurs when a manufacturer undertakes retailing and wholesaling activities, such as Apple operating its own retail stores.

Most large retailers such as Safeway, Walmart, and Lowe's manage their own distribution centers and perform activities undertaken by wholesalers. They buy directly from manufacturers, have merchandise shipped to their warehouses, and then distribute the merchandise to their stores. Other retailers, such as J.Crew and Victoria's Secret, are even more vertically integrated. They design the merchandise they sell and then contract with manufacturers to produce it exclusively for them. Stores like IKEA and Zara are almost completely vertically integrated since they manufacture and distribute most of the products they sell in their stores.

© VCG/Getty Images

IKEA is almost completely vertically integrated since it manufactures and distributes most of the products it sells in its stores.

Differences in Distribution Channels around the World

Some critical differences among the retailing and distribution systems in the United States, European Union, China, and India are summarized in Exhibit 1–3. As this exhibit suggests, the U.S. retail industry has the greatest retail density (retail stores per person) and concentration of large retail firms. Real estate in the United States is relatively inexpensive, and most consumers own automobiles. Thus, retailers often operate large stores in lightly populated areas. Many U.S. retailers have stores with more than 20,000 square feet. Due to their size, they have the scale economies to operate their own warehouses, eliminating the need for wholesalers. This combination of large stores and large firms in the United States results in a very efficient distribution system.

In contrast, the Indian distribution system is characterized by small stores operated by relatively small firms and a large independent wholesale industry. To make the daily deliveries to these small retailers efficiently, the merchandise often passes through several different wholesalers. In addition, the infrastructure to support modern retailing, especially the transportation and communication systems, is not as well developed in India as it is in more developed economies. These efficiency differences mean that a much larger percentage of the Indian labor force is employed in distribution and retailing than is the case in the United States, and the supply chain costs in India are higher.[14] Recent changes by the Indian government, however, have the potential to significantly modernize the retail landscape. For example, foreign retailers that

EXHIBIT 1–3 Comparison of Retailing and Distribution across the World

	United States	Northern Europe	India	China
Concentration (percentage of sales made by large retailers)	Highest	High	Lowest	Low
Retail density (square feet of retail space per person)	Highest	Modest	Lowest	Low
Average store size	Highest	Modest	Lowest	Modest
Role of wholesalers	Minimal	Modest	Extensive	Extensive
Infrastructure supporting efficient supply chain	Best	Good	Weakest	Weak
Restrictions on retail locations, store size, and ownership	Minimal	Extensive	Extensive	Modest

The retail industry in India is dominated by small, local retailers with few modern national chains.

© Dhruv Grewal

carry multiple brands, like Walmart, are now allowed to own up to 51 percent of joint ventures in India, and retailers that carry only their own brand, like adidas and Reebok, can now own 100 percent of their Indian businesses.[15]

China's retail industry is highly fragmented like the retail industry in India. It is composed of many small and medium-sized firms. The number of national and even regional chains is limited. However, China's retail distribution system is going through a period of rapid development. This development is spurred by the government's shifting interest away from a singular focus on exports and satisfying just basic consumer needs to finding ways to provide a higher quality of life. The government has removed most restrictions on direct foreign investments, and global retailers have flocked to this huge and growing market. As a result, China is the world's fastest-growing retail market, poised to hit the $8 trillion mark soon.[16] Walmart thus operates 425 stores in China, and Carrefour, the second-largest retailer in the world, operates 406. However, there is great disparity between the distribution system in the first-tier, eastern coastal cities—Beijing, Shanghai, and Guangdong—and the smaller western cities. The retail offering in the first-tier cities is very similar to the urban retail environment in U.S. cities such as New York and Chicago. In contrast, retailing in the smaller western cities is more similar to retailing in India.[17] The European distribution system falls between the U.S. and Indian systems on this continuum of efficiency and scale. In northern Europe, retailing is similar to that in the United States, with high concentration levels in some national markets.

ECONOMIC AND SOCIAL SIGNIFICANCE OF RETAILING

LO 1-2

Realize the importance of retailing in the U.S. and world economies.

Role in Developed Economies

Retail sales in 2015 were $5.3 trillion. More than 8 percent of the total U.S. gross domestic product (GDP) comes from retailing, almost as much as the contribution of the entire U.S. manufacturing industry sector.[18] But this sales level underestimates the impact of retailing on the U.S. economy because it does not include the sales and employment of many firms providing consumer services such as entertainment, home repairs, and health care.

Consumer spending plays a critical role in the economies of the United States and other developed countries. When consumers spend more money buying goods and services from retailers, a country's economy flourishes. Merchandise flies off the shelves, and retailers place orders for replacement merchandise. Manufacturers hire more employees, place orders for raw materials, and make more products. However, if consumers feel uncertain about their financial future and decide to refrain from buying new refrigerators or blue jeans, the economy slows down.

The retail sector plays a key role in developed economies, not only because consumer demand is an indication of a vibrant financial system but also because retailers are large employers. More than 14 million people were employed in retailing in 2015—approximately 10 percent of the U.S. workforce—and an additional 15 percent work for companies that either provide services to and/or sell products through retailers.[19]

Role in Developing Economies—The Bottom of the Pyramid

Retailers need to also focus on opportunities available by serving the needs of the 3 billion people living at the lowest end of the income distribution. This represents about 40 percent of the world's population that live on less than $2.50 per day.[20] Serving these customers also provides an important social benefit: reducing worldwide poverty.[21] Consumers in this low-income consumer segment, referred to as the **base of the pyramid** or **bottom of the pyramid (BoP)**, still have significant spending power. The sheer size and growth of the BoP markets, especially in countries with emerging economies such as China, India, and Brazil, together with the maturation of consumer goods and retail markets in developed economies is motivating firms to enter the BoP market.

Undertaking retailing activities for BoP markets is challenging, though. It is difficult to communicate and complete transactions with people in BoP markets because they often lack access to mass media, the Internet, mobile phones, or credit cards. Most people in BoP markets live in rural areas—remote villages that are not connected to the outside world through adequate roads. Limited local demand combined with the high cost of transporting goods to and from remote villages results in higher costs and prices for consumer goods. Thus, engagement at the BoP markets requires innovative approaches for doing business. Simply retrofitting business models used in the more developed markets will not work.[22] Retailing View 1.1 describes how some innovative mobile payment systems are helping improve the lives of people in Africa that are working, but whose incomes are below the poverty line.

Role in Society

In addition to providing goods and services to their customers, some retailers are realizing that their responsibility includes considering the needs and objectives of all of its **stakeholders**, which are the broad set of people who might be affected by a firm's actions, from current and prospective customers, to supply chain partners, to employees, to shareholders, to government agencies, to members of the communities in which the firm operates, and to a general view of society. For example, customers want low prices. Shareholders want high profits. Employees want high wages. Society wants firms to leave a low carbon footprint. As the recognition that attempting to satisfy the needs and objectives of multiple stakeholders has grown, some forward-thinking retailers are beginning to adopt the concept of conscious marketing.

These conscious marketing practices go beyond the traditional notion inherent in **corporate social responsibility (CSR)**, which involves an organization voluntarily engaging in business practices that meet or exceed the ethical and legal expectations of its stakeholders. **Conscious marketing** entails a sense of purpose for the firm higher than simply making a profit by selling products and services. It encompasses four overriding principles:[23]

1. **Recognition of the retailing firm's greater purpose.** When retailers recognize that its purpose should be more than just making profits—whether the purpose is

1.1 RETAILING VIEW Retailing at the Bottom of the Pyramid

For people living in extreme poverty, basic, functional phones offer a vast opportunity for consumption. For retailers, they also offer access to a new segment of shoppers. In sub-Saharan Africa, for example, consumers rely on their mobile devices to access payment services that allow them to load as little as a dollar on their phones, which they can then use to pay for products and services that improve their quality of life. The ability to pay less than 50 cents daily meant that one consumer could receive electricity from a solar panel provider. In the past, taking such small daily payments would have been too much work and too inefficient for the service provider. By linking to a mobile payment system, neither the consumer nor the supplier needs to engage in additional effort. And if the consumer isn't able to load enough onto her phone on one day, she can go without electricity until she can reload her mobile account with funds, without the risk of harming her credit or losing access to her account.

Thus in Kenya, for example, 61 percent of mobile users rely on their devices to engage in money transfers. As one Kenyan investment firm, which helps poor consumers gain access to micro-insurance and savings plans, explains, "If you're taking a dollar off a million people, that's a reasonable revenue stream, but it wasn't possible to do that without the mobile phone."

Among these consumers bank accounts are unusual, so the mobile payment systems allow them to load funds with the assistance of agents that work in local gas stations and stores. Once the funds are loaded, they can pay for groceries at the point of sale by tapping their phones, or they can send funds electronically. This latter functionality is critical because for many Africans, making a trip to pay a bill might mean an entire day of lost labor due to travel times.

© Jake Lyell/Alamy Stock Photo

In sub-Saharan Africa, consumers rely on text messages to communicate with distant contacts because texts are less expensive than phone calls.

These benefits have turned Africa into the source of some astounding innovations, especially for microbusiness concepts. Sub-Saharan Africa accounts for about 70 percent of the world's poor population, but nearly 65 percent of these households have access to at least one mobile phone. In addition, Africa is the fastest-growing mobile market in the world.

Sources: Heidi Vogt, "Making Change: Mobile Pay in Africa," *The Wall Street Journal,* January 2, 2015; Pew Research Center, "Cell Phones in Africa: Communication Lifeline," April 15, 2015, http://www.pewglobal.org/2015/04/15/cell-phones-in-africa-communication-lifeline/.

providing free shoes for residents of poor nations, as TOMS does, or ensuring employment opportunities for local communities, or making strides toward more energy-efficient stores—the actions it undertakes change in focus.

2. **Consideration of stakeholders and their interdependence.** Retailers that embrace the notion of conscious marketing consider how their actions will affect the expansive range of potential stakeholders listed earlier. They realize that to serve as many stakeholders as possible but avoid inflicting severe damage on any others, they must give up their exclusive focus on maximizing profits.[24] Rather, they consider the broad implications of their actions. By considering these impacts as a foundation for any decision, these retailers achieve the most benefits for the largest numbers of stakeholders, while also ensuring that they avoid causing significant harm to any group. For example, when Walmart issued new standards for farms that supply it with livestock products, the effects were felt by the supply chain partners, who might need to adjust their practices; competitors that might need to adopt similar protections; consumers who can take more assurance that the animals raised for their food will not have been fed antibiotics; and animal welfare groups that call the new standards "a step in the right direction."[25]
3. **The presence of conscious leadership, creating a corporate culture.** A conscious marketing approach implies that the firm's leaders are dedicated to the proposition of being conscious at all levels of the business, throughout its entire

culture. The resulting conscious corporate culture stays in line with its higher purpose and in accordance with the leader's ideals. As a result, every member of the firm embodies the ideas of conscious marketing, and every stakeholder affected by that retailer can recognize the higher principles involved. The founder and CEO of Whole Foods Market, John Mackey, who is the subject of Retailing View 1.2, not only embraces the notion of conscious retailing, which he calls conscious capitalism, but also has written extensively, given speeches on the topic, and is a founder of consciouscapitalism.org.[26] Whole Foods's motto, "Whole Foods, Whole People, Whole Planet," emphasizes its goals of supporting the health and well-being of people and the planet.[27]

4. **The understanding that decisions are ethically based.** Retailers that are engaged in conscious marketing make decisions that are based on sound business **ethics**. Business ethics is concerned with distinguishing between right and wrong actions and decisions that arise in a business setting, according to broad and well-established moral principles. Examples of difficult situations that retail managers face include the following: Should a retailer sell merchandise that it suspects was made using child labor? Should a retailer advertise that its prices are the lowest available in the market, even though some are not? Should a retail buyer accept an expensive gift from a vendor? Should retail salespeople use a high-pressure sales approach when they know the product is not the best for the customer's needs? Should a retailer promote a product as being "on sale" if it never sold at a higher, nonsale price?

Although these retailers engage in conscious marketing because it is good for the long-term viability of their firms as well as its stakeholders, it just happens to be a good business practice in the near-term as well because it draws like-minded customers to the firm and makes them more engaged and loyal. When, after a major snowstorm, a customer shopping Trader Joe's forgot her wallet, the cashier paid the bill and told the customer to pay him the next time she came in. As a result of this act of kindness, which resulted in part from the retailer's allegiance to these conscious marketing and business practices, it created a customer for life.[28] Over time, customers like these may become champions for the retailer, identifying with its core values, and sharing those values with others.[29]

Trader Joe's recognizes that being good to its customers isn't just good business, it is also the right thing to do.

1.2 RETAILING VIEW Whole Foods and John Mackey: The Birth of the Organic Supermarket

John Mackey had a relatively conventional, middle-class, suburban upbringing. But it was the 1970s, so Mackey quit college and embraced an alternative lifestyle (e.g., long beard, wild hair). After having worked in a vegetarian collective, he solicited money from family and friends so that he could open a new sort of co-op in 1978: an organic food store on the first floor, restaurant on the second floor, and living quarters on the top of the old Victorian house he had found.

A couple of years later, Mackey went further and opened the first Whole Foods store in a 10,000-square-foot space that had once been a nightclub. In keeping with its history, Mackey made sure his natural food store was no stodgy, boring site with just granola. He stocked beer, meat, and wine, and he "loved it. I loved retail. I loved being around food. I loved natural foods. I loved organic foods. I loved the whole idea of it. And a thought entered into my mind that maybe this is what I could do." This passion has not died down either. In 2014 Whole Foods began using a new rating system that took into account factors such as energy conservation, waste reduction, and the welfare of farmworkers, reflecting Mackey's sense that just being organic was not enough. Rather, he embraced the notion of "conscious capitalism." Although the rating system was met with much resistance from Whole Food suppliers, Mackey has not relented. Part of what has made Mackey so successful is his complete lack of fear of making people angry, when he believes he is making the right choices.

For example, being a grocer was not a particularly popular aspiration with his family. His mother, a former teacher, strongly discouraged his interest in Whole Foods. According to Mackey's account, on her deathbed in 1987, she asked him to promise to return to school to get his college degree; when he demurred, she complained, "I wish you'd just give up that stupid health-food store. Your father and I gave you a fine mind, and you're wasting it being a grocer."

He never did give up on his "stupid" store. Instead, the concept spread across the world, with over 435 stores in three countries. Mackey has adopted and adapted his ideas to fit local tastes. Through decentralized decision-making units, Whole Foods stores could choose to stock items specific to the preferences of the local markets, like live lobsters in Portland, Maine, or a kombucha bar in Venice, California. Through acquisitions, Whole Foods gained additional knowledge, too. In buying Wellspring Grocery, it learned about private-label options. The purchase of Mrs. Gooch's provided Whole Foods with insights into diet supplements. When it purchased Bread & Circus, it gained access to the Boston chain's famed seafood procurement expertise. By acquiring Allegro Coffee, it facilitated the development of in-store coffee bars that compete with Starbucks and Peet's, and provides a reason for customers to linger in its stores and hopefully buy more groceries.

© Daily Mail/Rex/Alamy Stock Photo

Whole Foods founder and CEO, John Mackey

Sources: John Mackey and Raj Sisodia, *Conscious Capitalism: Liberating the Heroic Spirit of Business* (Boston: Harvard Business School Press, 2014); Beth Kowitt, "John Mackey: The Conscious Capitalist," *Fortune,* August 20, 2015; "John Mackey: Co-Chief Executive Officer and Co-Founder," Whole Foods Market, http://media.wholefoodsmarket.com/experts/executives/john-mackey; www.wholefoodsmarket.com/company-info/whole-foods-market-history; Nick Paumgarten, "Food Fighter," *The New Yorker,* January 4, 2010.

THE GROWING IMPORTANCE OF RETAILING AND RETAILERS

LO 1-3

Analyze the changing retail industry.

Evolution of the Retail Industry

From a consumer's perspective, retailers are local businesses. Even though many consumers collect information and make purchases using the Internet or a mobile device, more than 90 percent of all retail sales are still made in stores—usually stores that are less than a 15-minute drive from the consumer's home or workplace. Thus, retail stores predominately compete against other stores that are located nearby.[30]

There has been a dramatic change in the structure of the retail industry over the past 50 years. Fifty years ago, Sears and JCPenney were the only retail firms that had chains of stores across the United States. The retail industry consisted of small, independent, local retailers competing against other small, independent retailers in the same community. Walmart, Home Depot, Staples, and Best Buy did not exist or were small companies with a few stores. Now, the retail industry is dominated by large, national, and even international retail firms. For example, though 2014 revenues for 250 of the world's top retailers approached $4.5 trillion, an estimated $100 billion of that amount went to just four massive retailers. About one-quarter of the retailers included in the top 250 list actually account for less than $5 billion in revenues total.[31] Home improvement centers in particular are highly concentrated; the two largest firms account for 45.6 percent of U.S. market share.[32] For department stores, there are six names that earn 62.9 percent of market share.[33] The two-store competition in the drugstore market shows varying market shares in different locations, such that CVS and Walgreens make up anywhere from between 50 and 75 percent of the market share in the largest cities in the United States.[34]

© Fotosearch/Getty Images

Fifty years ago, Sears was one of only a few retailers that had chains of stores across the United States.

The largest U.S.-based retailers are shown in Exhibit 1-4. Walmart is still number one, but Amazon is catching up with a third place finish. Six of the top twenty are supermarkets, with The Kroger Co. taking the lead in second place. The next largest concentration of large retailers is the Drugstore/Pharmacy category with Walgreens Boots Alliance and CVS Health Corporation landing in the sixth and seventh spots (although

EXHIBIT 1–4 The 20 Largest U.S.-Based Retailers

Rank	Name	Headquarters Location	2017 Retail Sales (billions)	Primary Format
1	Wal-Mart	Bentonville, AK	$374.80	Full-Line Discount Store
2	The Kroger Co.	Cincinnati, OH	$115.89	Supermarket
3	Amazon	Seattle, WA	$102.96	Online
4	Costco	Issaquah, WA	$93.08	Warehouse Club
5	The Home Depot	Atlanta, GA	$91.91	Home Improvement
6	Walgreens Boots Alliance	Deerfield, IL	$82.75	Drugstore/Pharmacy
7	CVS Health Corporation	Woonsocket, RI	$79.54	Drugstore/Pharmacy
8	Target	Minneapolis, MN	$71.88	Full-Line Discount Store
9	Lowe's Companies	Mooresville, NC	$63.13	Home Improvement
10	Albertsons Companies	Boise, ID	$59.72	Supermarket
11	Royal Ahold Delhaize USA	Carlisle, PA	$43.20	Supermarket
12	Apple Stores/iTunes	Cupertino, CA	$38.60	Electronics
13	Best Buy	Richfield, MN	$38.59	Electronics
14	McDonald's	Oak Brook, IL	$37.64	Restaurant/Fast Food
15	Publix Super Markets	Lakeland, FL	$34.56	Supermarket
16	TJX Companies	Framingham, MA	$27.40	Off-Price
17	Aldi	Batavia, IL	$25.86	Supermarket
18	Macy's	Cincinnati, OH	$24.76	Department Store
19	Dollar General	Goodlettsville, TN	$23.47	Extreme Value
20	H-E-B Grocery	San Antonio, TX	$21.94	Supermarket

Source: "Stores Top Retailers 2018," *Stores Magazine,* 2018.

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The scanning of the onions at the POS terminal at the checkout counter of the grocery store launches a chain of activities that ensures that the store will not run out before the next order arrives.

Amazon, full-line discount stores, supermarkets, warehouse clubs, and extreme-value retailers compete in this space).

The development of information systems is one of the forces facilitating the growth of large retail firms—the shift from an industry dominated by small local retailers to large multinational chains. Prior to the development of these systems, it was difficult for someone other than the local store manager to track how merchandise in the store was selling—whether it was selling more than expected and needed to be reordered or if it was selling below expectations and needed to have its price reduced. It was also difficult to collect and consolidate the plans from a number of different stores so that a buyer could place large orders with vendors to get price discounts. Thus, before the availability of modern information systems, it was difficult for retailers to lower costs through scale economies, and larger retailers had limited advantages over small local or regional retailers.

Most consumers shopping in their local stores don't realize the sophisticated information systems used by retailers today to manage these large, complex supply chain systems. To illustrate the complexity of these systems, consider the following example. You go to Staples and find a tablet you are going to buy. When you decide to buy a tablet in a store, the point-of-sale (POS) terminal transmits data about the transaction to the retailer's distribution center and then on to the manufacturer. Data about your purchase are incorporated into a sophisticated inventory management system. When the in-store inventory level drops below a prespecified level, an electronic notice is automatically transmitted, authorizing the shipment of more units to the retailer's distribution center and then to the store. The retail buyer or a computer program analyzes the sales data to determine how many and which tablet models will be stocked in the retailer's stores and what price will be charged.

Role of Information Systems

Now, retailers are inundated with data about the thousands of transactions that take place each day. The challenge for retailers is to convert these raw data into information that managers can use to make better decisions. Many retailers now use customer data to identify their best customers and target customized promotions to them; use purchase data to determine how to place products in closer proximity when the data show that many customers buy the same products at the same time; and use location data to tailor the assortment of products in each store to match the needs of the store's local market.

MANAGEMENT AND ENTREPRENEURIAL OPPORTUNITIES

LO 1-4

Recognize the opportunities for you in retailing.

In addition to playing an important role in society in general, retailing provides personal opportunities to work for a company in an exciting, challenging environment or to start an entrepreneurial venture. These opportunities are discussed in this section.

Management Opportunities

To exploit these new technologies and systems and gain advantage in a highly competitive and challenging environment, retailers are hiring and promoting the best and brightest. Sherry Hollack, a former vice president of talent development at Macy's, emphasized this point: "One of the biggest challenges facing Macy's, and most other retail chains, is hiring and retaining managers to lead our company in the coming years. The changing demographics are working against us. Over the next ten years, a lot of our senior managers, members of the Baby Boomer generation, will be retiring. So we are going to be competing with other retailers and firms in other industries for a smaller pool of available managers in the generations behind the Boomers. In addition, retailing is becoming a much more sophisticated business. Our managers need to be comfortable with new technologies, information and supply chain management systems, and international business as well as managing a diverse workforce and buying merchandise."[35]

Students often view retailing as part of marketing because managing distribution (place) is one of the 4 Ps of marketing (price, product, promotion, and place). But retailers are businesses and, like manufacturers, undertake all the traditional business activities. Retailers raise capital from financial institutions; purchase goods and services; use accounting and management information systems to control their operations; manage warehouses and distribution systems; design and develop new products; and undertake marketing activities such as advertising, promotion, sales force management, and market research. Thus, retailers employ people with expertise and interests in finance, accounting, human resource management, supply chain management, and computer systems, as well as management and marketing.

Retail managers are often given considerable responsibility early in their careers. Retail management is also financially rewarding. Starting salaries are typically between $35,000 and $65,000 for college graduates entering management trainee positions. After completing a management training program, retail managers can double their starting salary in three to five years if they perform well. Senior buyers and others in higher managerial positions and store managers make between $120,000 and $300,000. (See Appendix 1A at the end of this chapter.)

Entrepreneurial Opportunities

Retailing also provides opportunities for people who wish to start their own business. Some of the world's most successful people are retailing entrepreneurs. Many are well known because their names appear over stores' doors; others you may not recognize. Retailing View 1.3 examines the life of one of the world's greatest entrepreneurs,

RETAILING VIEW Jeff Bezos, Founder of Amazon 1.3

Jeffrey Bezos, founder and CEO of Amazon.com, is also the third-richest person in the world, with a net worth of $65.3 billion. After his own research uncovered that Internet usage was growing at a 2,300 percent annual rate in 1994, Bezos, the 30-year-old son of a Cuban refugee, quit his job on Wall Street and left behind a hefty bonus to start an Internet business. While his wife MacKenzie was driving their car across country, Jeff pecked out his business plan on a laptop computer. By the time they reached Seattle, he had rounded up the investment capital to launch the first Internet book retailer. The company, Amazon.com, is named after the river that carries the greatest amount of water, symbolizing Bezos's objective of achieving the greatest volume of Internet sales.

Under his leadership, Amazon developed technologies to make shopping on the Internet faster, easier, and more personal than shopping in stores by offering personalized recommendations and home pages. Amazon.com has become more than a bookstore. It is now one of the largest online retailers, with annual sales greater than $48 billion. Amazon also provides virtual stores and fulfillment services for many other retailers.

Those working with him say that "he has become a leader of leaders" empowering those around him, while stressing the importance of a customer focus and forward thinking. The sheer size of Amazon and the two other companies he runs necessitates this kind of leadership, though Amazon board members state that at the beginning he was in the center of everything and "the leadership was Jeff Bezos." Bezos also acquired the *Washington Post* in 2013 and has developed an aerospace company, Blue Origin, which launched its first rocket into suborbit in November 2015.

© David McNew/Getty Images

Jeff Bezos is the founder and CEO of Amazon.com.

Sources: "Bezos Prime," *Fortune,* April 1, 2016; "Jeff Bezos," *Fortune,* July 29, 2016; "Amazon Boss Bezos Becomes World's Third Richest," BBC, July 29, 2016; Kelsey Lindsey, "Retail in a Slump? Not for These 6 Billionaires," *Retail Dive,* March 5, 2014; Tom Robinson, *Jeff Bezos: Amazon.com Architect* (Publishing Pioneers) (Edina, MN: Abdo Publishing, 2009); www.forbes.com/profile/jeff-bezos/.

Jeff Bezos. Some other innovative retail entrepreneurs include Sam Walton, Do Won and Jin Sook Chang, Ingvar Kamprad, and Howard Schultz. These entrepreneurs came from humble backgrounds and changed the way retailing is done.

Sam Walton (Walmart) Sam Walton began working at an Iowa JCPenney store in 1940. After purchasing a Ben Franklin variety store franchise in Newport, Arkansas, he discovered that he could boost profits if he could find suppliers that would sell him merchandise at lower prices than it cost him to buy them from Ben Franklin. Walton lost his store in 1950, when the landlord refused to renew his lease, but the challenge pushed him to move and open a new Ben Franklin store with his younger brother. By 1960, the Waltons had 15 stores in Arkansas and Missouri, laying the foundation for what would become Walmart.

In 1962, Sam Walton brought his new ideas for the discount format to small southern towns, opening his first Walmart Discount City in Rogers, Arkansas. In 1991, the success of his concept and his efficient management practices had made Walton America's wealthiest person. He died of leukemia in 1992. His children and heirs still hold four spots on the list of the richest people in the world. Each Walton with a share benefits from the billions in sales earned by the world's largest retailer. In turn, they spread their wealth throughout various investments, charitable causes, and special interest groups.[36]

Do Won and Jin Sook Chang (Forever 21) Do Won and Jin Sook Chang are self-made billionaires. In 1984, they cofounded the fast-fashion retail chain Forever 21. The pair emigrated from South Korea in 1981 and became naturalized American citizens, then opened their first store in 1984, focused on trendy, exciting clothing options. That year, sales grew from $35,000 to $700,000. Forever 21 has continued to experience explosive growth. It operates more than 600 stores worldwide with more than 35,000 employees and revenues of $4.4 billion. Forever 21 is a family operation: Do Won at the helm, Jin Sook in charge of merchandising, eldest daughter Linda runs marketing, and daughter Esther manages visuals.[37]

Forever 21 founder Do Won and his daughter Linda Chang (senior marketing manager) visiting their flagship store in Times Square.

Ingvar Kamprad (IKEA) Ingvar Kamprad, the founder of the Swedish-based home furnishing retailer chain IKEA, was always an entrepreneur. His first business was selling matches to neighbors from his bicycle. He discovered he could make a good profit by buying matches in bulk and selling them individually at a low price. He then expanded to selling fish, Christmas tree decorations, seeds, ballpoint pens, and pencils. By the time he was 17 years of age, he had earned a reward for succeeding in school. His father gave him the money to establish what is now IKEA. Like Sam Walton, the founder of Walmart, Kamprad is known for his frugality. He drives an old Volvo, flies economy class, and encourages IKEA employees to write on both sides of a sheet of paper. This thriftiness has translated into a corporate philosophy of cost cutting throughout IKEA so that the chain can offer quality furniture with innovative designs at low prices. Although Kamprad once was listed as the richest person in Europe, with an estimated net worth of around $33 billion,[38] he also continues to live up to his economic principles. Believing that the trappings of wealth are unimportant, he gave away most of his shares in IKEA—and thus much of his net worth—before stepping down and handing control of the company to his son in 2013. Even after doing so, because of the remarkable success of his ideas, he remains a billionaire.[39]

Howard Schultz (Starbucks) In 1982, Howard Schultz, a salesperson for a plastic manufacturer, was hired as the new head of marketing for Starbucks, a coffee roaster with six cafés. Shortly after he was hired he went to Verona, Italy, to attend an international housewares show. He had his first latte in Verona, but he saw something more important than the coffee. The café patrons were enjoying themselves while sipping their coffees in the elegant surroundings. He had a vision of recreating the Old World magic and romance behind the Italian coffee bar. The owner wanted to focus on his plan to sell roasted whole beans, and eventually Schultz acquired Starbucks and began the company's march across the world. Schultz's father struggled at low-paying jobs with little to show for it when he died. "He was beaten down, he wasn't respected," Schultz said. "He had no health insurance, and he had no workers' compensation when he got hurt on the job." So with Starbucks, Schultz "wanted to build the kind of company that my father never got a chance to work for, in which people were respected."[40] Due to this childhood experience, Schultz initiated practices at Starbucks that are still uncommon in retailing, such as providing comprehensive health care for all employees working at least 20 hours a week, including coverage for unmarried spouses, and offering an employee stock-option plan. In 2016, Starbucks's sales were greater than $20 billion from the 24,000 stores it operates in 70 countries.[41]

In the next section, we discuss the decisions that retailers make to design and implement their retail strategy. This book is organized around this strategic decision-making process.

THE RETAIL MANAGEMENT DECISION PROCESS

This book is organized around the management decisions that retailers make to provide value to their customers and develop an advantage over their competitors. Exhibit 1–5 identifies the chapters in this book associated with each type of decision.

LO 1-5

Understand the strategic retail management decision process.

Understanding the World of Retailing—Section I

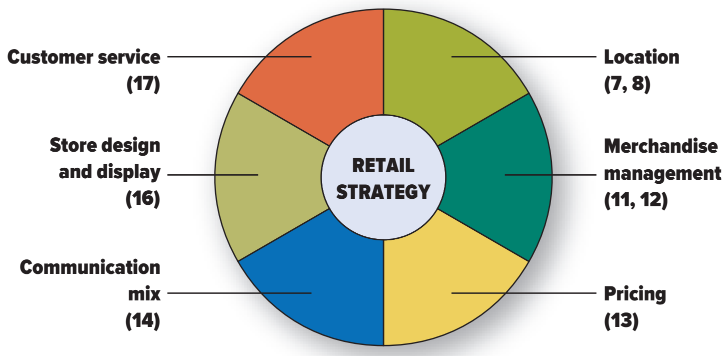
The first step in the retail management decision process, as Exhibit 1–6 shows, is understanding the world of retailing. Retail managers need to know the environment in which they operate before they can develop and implement effective strategies. The first section of this book therefore provides a general overview of the retailing industry and its customers.

EXHIBIT 1–5
Retail Management Decision Process

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 this book. For example, the influence of technology on the rise of multichannel and omnichannel retailing is reviewed in Chapter 3, the use of new information and supply chain technologies are examined in Chapter 9, customer relationship management systems are reviewed in Chapter 10, and new communication technologies are discussed in Chapter 14.

Competitors The retailer's microenvironment focuses specifically on its competitors and customers. At first glance, identifying competitors appears easy: A retailer's primary competitors are other retailers that use the same retail approach. Thus, department stores compete against other department stores, and supermarkets compete with other supermarkets. This competition between the same type of retailers is called **intratype competition**.

EXHIBIT 1–6
The Retail Mix



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Scrambled merchandising is when a drugstore offers beauty products (left) and merchandise not typically associated with a drugstore, such as dairy products (right).

Yet to appeal to a broader group of consumers, many retailers are increasing the variety of merchandise they offer. By offering greater variety, retailers satisfy the needs of customers seeking a one-stop shopping experience. For example, Walgreens has added jewelry, accessories, and apparel to its already extensive health and beauty categories to meet the lifestyle needs of its customers. Amazon offers virtually any product, and many services, you might ever want to buy or rent. When retailers offer merchandise not typically associated with their type of store, such as clothing in a drugstore, the result is **scrambled merchandising**. Scrambled merchandising increases **intertype competition**, or competition among retailers that sell similar merchandise using different types of retail outlets, such as drugstores and department stores.

Management's view of competition also may differ depending on the manager's position within the retail firm. For example, the manager of the Saks Fifth Avenue women's sportswear department in Bergen County, New Jersey, views the other women's sportswear specialty stores in the Riverside Square mall as her major competitors. But the Saks store manager views the Bloomingdale's store in a nearby mall as her strongest competitor. These differences in perspective arise because the department sales manager is primarily concerned with customers for a specific category of merchandise, whereas the store manager is concerned with customers seeking the entire selection of all merchandise and services offered by a department store. The chief executive officer (CEO) of a retail chain, in contrast, views competition from a much broader perspective. For example, Nordstrom might identify its strongest competitor as Saks, Neiman Marcus, Bloomingdale's, and even Bluefly.com.

Chapter 2 discusses various types of retailers and their competitive strategies, and Chapter 3 concentrates on different types of channels that retailers use to complete transactions with their customers.

Customers The second factor in the microenvironment is customers. Retailers must respond to broad demographic and lifestyle trends in our society, such as the growth in the senior and minority segments of the U.S. population or the importance of shopping convenience to the increasing number of two-income families. To develop and implement an effective strategy, retailers must understand why customers shop, how they select a store, and how they select among that store's merchandise—the information found in Chapter 4.

Developing a Retail Strategy—Section II

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 developed in the first section of this book. Section II focuses on decisions related to developing a retail strategy, whereas Sections III and IV pertain to decisions surrounding the implementation of the strategy and building a long-term competitive advantage. The decisions discussed in Sections III and IV are more tactical.

Retail Strategy The **retail strategy** identifies (1) the target market, or markets, toward which the retailer will direct its efforts; (2) the nature of the merchandise and services the retailer will offer to satisfy the needs of the target market; and (3) how the retailer will develop unique assets that enable it to achieve long-term advantage over its competitors.

Toys "R" Us focuses on toys and apparel for children, while Walmart's strategic focus is much broader.

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The nature of a retail strategy can be illustrated by comparing the strategies of Walmart and Toys "R" Us. Initially, Walmart identified its target market as small towns (fewer than 35,000 in population) in Arkansas, Texas, and Oklahoma. It offered name-brand merchandise at low prices in a broad array of categories, ranging from laundry detergent to girls' dresses, but offerings in each category were limited. Today, even as Walmart stores have expanded across the world, the selection in each category remains limited. A Walmart store might have only 3 models of flat-screen television sets, while an electronic category specialist like Best Buy might carry 30 models.

In contrast to Walmart, Toys "R" Us defines its primary target as consumers living in suburban areas of large cities. Rather than carrying many merchandise categories, Toys "R" Us stores specialize in toys and children's apparel and carry most types and brands currently available in the market. Walmart emphasizes self-service: Customers select their merchandise, bring it to the checkout line, and then carry it to their cars. But Toys "R" Us provides more customer service. It has salespeople to assist customers with certain types of merchandise.

Because Walmart and Toys "R" Us both emphasize competitive prices, they have made strategic decisions to sustain their low prices by developing a cost advantage over their competitors. Both firms have sophisticated distribution and management information systems to manage inventory. Their strong relationships with their suppliers enable them to buy merchandise at low prices.

Strategic Decision Areas The key strategic decisions a retailer makes are defining its target market and its financial objectives. Chapter 5 discusses how the selection of a retail market strategy requires analyzing the environment and the firm's strengths and weaknesses. When major environmental changes occur, the current strategy and the reasoning behind it must be 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. Chapter 6 reviews how financial variables, such as return on investment, inventory turnover, and profit margin, can be used to evaluate the market strategy and its implementation.

The next set of strategic decisions involves the development of critical assets that enable retailers to build strategic advantages. These strategic assets are location, human resources, information and supply chain systems, supply chain organization, and customer loyalty.

Decisions regarding location (reviewed in Chapters 7 and 8) are important because 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. In addition, location offers an opportunity to gain a long-term advantage over the competition. When a retailer has the best location, a competing retailer must settle for the second-best location.

Retail information and supply chain management systems also offer a significant opportunity for retailers to gain strategic advantage. Chapter 9 reviews how retailers are developing sophisticated computer and distribution technologies to monitor flows of information and merchandise from vendors to retail distribution centers to retail stores. These technologies are part of an overall inventory management system that enables retailers to (1) make sure desired merchandise is available when customers want it and (2) minimize the retailer's inventory investment.

Retailers, like most businesses, want to develop repeat purchases and loyalty in their best customers. Chapter 10 examines the process that retailers use to identify, design programs for, increase the share of wallet of, provide more value to, and build loyalty among their best customers. The implementation decisions are discussed in the next two sections.

Implementing the Retail Strategy—Sections III and IV

To implement a retail strategy, retailers develop a retail mix that satisfies the needs of its target market better than that of its competitors. The **retail mix** is a set of decisions retailers make to satisfy customer needs and influence their purchase decisions. Elements in the retail mix (Exhibit 1–6) 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. Section III reviews the implementation decisions made by buyers, and Section IV focuses on decisions made by store managers.

Managers in the merchandise management area decide how much and what types of merchandise to buy (Chapter 11), what vendors to use and how to interact with them (Chapter 12), the retail prices to set (Chapter 13), and how to advertise and promote merchandise (Chapter 14). Store managers must determine how to recruit, select, and motivate sales associates (Chapter 15); where and how merchandise will be displayed (Chapter 16); and the nature of services to provide for customers (Chapter 17).

SUMMARY

LO 1-1 Identify retailing activities.

Retailing is defined as a set of business activities that add value to the products and services sold to consumers for their personal or family use. These value-added activities include providing assortments, breaking bulk, holding inventory, and providing services.

LO 1-2 Realize the importance of retailing in the U.S. and world economies.

Retailing plays an important role in the U.S. economy. One out of four workers in the United States works for a retailer or for a company selling products to a retailer, and the U.S. retail sector accounts for about the same percentage of the U.S. GDP as the entire manufacturing sector. Retailing also plays an important role in developing economies. Some business scholars feel that there is need for modern retail methods to be used to serve consumers at the bottom of the pyramid.

LO 1-3 Analyze the changing retail industry.

The retail industry has changed dramatically over the last 50 years. Many well-known national and international retailers were once small start-up companies; now the industry is dominated by large firms. The development of information systems is one of the forces facilitating the growth of large retailers. Before the availability of modern information systems, it was difficult for retailers to lower costs through economies of scale, and larger retailers had limited advantages over small local or regional retailers. With these information systems, retailers are able to efficiently and effectively manage millions of customer transactions with thousands of stores and suppliers across the globe.

LO 1-4 Recognize the opportunities for you in retailing.

Retailing offers opportunities for exciting, challenging careers, either by working for a retail firm or starting your own business. Aspects of retail careers are discussed in Appendix 1A.

LO 1-5 Understand the strategic retail management decision process.

The retail management decision process involves developing a strategy for creating a competitive advantage in the marketplace and then developing a retail mix to implement that strategy. The strategic decisions, discussed in the first half of this textbook, involve selecting a target market; defining the nature of the retailer's offering; and building a competitive advantage through locations, information and supply chain management systems, and customer relationship management programs.

The merchandise and store management decisions for implementing the strategy, discussed in the second half of this textbook, involve selecting a merchandise assortment, buying merchandise, setting prices, communicating with customers, managing the store, presenting merchandise in stores, and providing customer service. Large retail chains use sophisticated information systems to analyze business opportunities and make these decisions about how to operate their businesses in multiple countries.

KEY TERMS

backward integration, *8*
base of the pyramid, *11*
bottom of the pyramid (BoP), *11*
breaking bulk, *7*
conscious marketing, *11*
corporate social responsibility (CSR), *11*
ethics, *13*
forward integration, *8*
holding inventory, *7*
intertype competition, *21*
intratype competition, *20*
retailer, *6*
retailing, *6*
retail mix, *23*
retail strategy, *21*
scrambled merchandising, *21*
stakeholders, *11*
supply chain, *6*
vertical integration, *8*
wholesaler, *8*

GET OUT AND DO IT!

1. **CONTINUING CASE ASSIGNMENT** In most chapters of this textbook, there will be a GET OUT AND DO IT! assignment that will give you an opportunity to examine the strategy and tactics of one retailer. Your first assignment is to select a retailer and prepare a report on the retailer's history, including when it was founded and how it has evolved over time. To ensure that you can get information about the retailer for subsequent Continuing Case Assignments, the retailer you select should:
   - *Be a publicly held company so that you can access its financial statements and annual reports.* Do not select a retailer that is owned by another company. For example, Bath & Body Works is owned by L Brands (formerly called Limited Brands), so you can get financial information about only the holding company and not the various, individual companies it owns, such as Victoria's Secret and The White Barn Candle Company.
   - *Focus on one type of retailing.* For example, Abercrombie & Fitch operates just one type of specialty store and thus would be a good choice. However, Walmart operates discount stores, warehouse club stores, and supercenters and would not be a good choice.
   - *Be easy to visit and collect information about.* Some retailers and store managers may not allow you to interview them about the store, take pictures of the store, talk with sales associates, or analyze the merchandise assortment in the store. Try to pick a retailer with a local store manager who can help you complete the assignments.

   Some examples of retailers that meet the first two criteria are Whole Foods Market, Dress Barn, Burlington Coat Factory, Ross Stores, Ann Taylor, Cato, Finish Line, Foot Locker, Brookstone, Claire's, Walgreens, Staples, Office Depot, American Eagle Outfitter, Pacific Sunwear, Abercrombie & Fitch, Tiffany & Co., Zales, Autozone, Pep Boys, Hot Topic, Wet Seal, Best Buy, Family Dollar, Dollar General, Michaels, PetSmart, Dillard's, Pier 1 Imports, Home Depot, Lowe's, Bed Bath & Beyond, Men's Wearhouse, Kroger, Kohl's, Radio Shack, Safeway, and Target.
2. **GO SHOPPING** Visit a local retail store, and describe each of the elements in its retail mix.
3. **INTERNET EXERCISE** Data on U.S. retail sales are available at the U.S. Bureau of the Census Internet site at: **www.census.gov/retail/index.html**. Under the heading "Monthly Retail Trade Report" there is a file titled "Retail and Food Services Sales" that lists sales by type of retailer. In which months are sales the highest? Which

kinds of businesses experience the greatest fluctuations in monthly sales? List reasons that help explain your findings.

4. **INTERNET EXERCISE** Go to the home pages of Macy's, Target, Walmart, Toys "R" Us, and the National Retail Federation Retail Careers Center (**www.nrf.com/RetailCareers/**) to find information about retail careers with these organizations. Review the information about the different positions described. In which positions would you be interested? Which positions are not of interest to you? Which employer would interest you? Why?
5. **INTERNET EXERCISE** Choose one of the top 20 retailers (Exhibit 1–4). Go to the company's website and find out how the company started and how it has changed over time.
6. **INTERNET EXERCISE** Go online to the websites of Whole Foods or The Container Store. In a brief paragraph, describe how this retailer is taking steps to contribute to a social or ethical cause.

DISCUSSION QUESTIONS AND PROBLEMS

1. How do retailers add value to the products bought by consumers?
2. What is your favorite retailer? Why do you like this retailer? What would a competitive retailer have to do to get your patronage?
3. What are the benefits and limitations of purchasing a home entertainment system directly from a number of component manufacturers rather than from a retailer?
4. What retailers would be considered intratype competitors for a convenience store chain such as 7-Eleven? What firms would be intertype competitors?
5. How does Walmart contribute to and/or detract from the communities in which it operates stores?
6. The same brand and style of men's suits are sold at different prices at a department store like Macy's and at a specialty store like Men's Wearhouse. Why would a customer choose to buy the suit from one store rather than the other?
7. Compare and contrast the retail mixes of department stores and full-line discount stores. Use bullet points or a table to list the similarities and differences.
8. An entrepreneur approaches you about how to sell her new writing pens to consumers. The pens have a unique benefit—they are more comfortable to use than traditional pens. The entrepreneur is concerned the retailers she has approached want to buy the pens from her at $10 apiece and then sell the pens in their stores at $18 to consumers. The entrepreneur is dismayed at the extra $8 the retailers are getting and has decided to sell the product directly to consumers for $10. She wants to know your opinion. What do you think? Why?
9. From a personal perspective, how does retailing rate as a potential career compared with others you are considering? Why?
10. In this chapter, some socially responsible activities engaged in by retailers are described. Take the perspective of a stockholder in one of these companies. What effect will these activities have on the value of its stock? Why might they have a positive or negative effect?

APPENDIX 1A Careers in Retailing

Retailing offers exciting and challenging career opportunities. Few other industries grant as many responsibilities to young managers. When students asked Dave Fuente, former CEO of Office Depot, what they needed to become a CEO someday, he responded, "You need to have profit and loss responsibility and the experience of managing people early in your career." Entry-level retail jobs for college graduates offer both these opportunities. Most college graduates begin their retail careers as assistant buyers, merchandise planners, or department managers in stores. In these positions, they are responsible for the profitability of a line of merchandise or an area of the store, and they manage people who work for them.

Even if you work for a large company, retailing provides an opportunity for you to do your own thing and be rewarded. You can come up with an idea, execute it almost immediately, and see how well it is doing by reviewing the sales data at the end of the day.

Retailing offers a variety of career paths, such as buying, store management, sales promotion and advertising, human resources, operations/distribution, real estate, loss prevention, and finance. In addition, retailing offers almost immediate accountability for talented people, so they can reach key management positions fairly quickly. Starting salaries are competitive, and the compensation of top management ranks among the highest in any industry.

CAREER OPPORTUNITIES

In retail firms, career opportunities are in merchandising/buying, store management, and corporate staff functions. Corporate positions are in accounting, finance, real estate, promotions and advertising, computer and distribution systems, and human resources.

The primary entry-level opportunities for a retailing career are in the areas of buying and store management. Buying positions are more numbers-oriented, whereas store management positions are more people-oriented. Entry-level positions on the corporate staff are limited. Retailers typically

The typical entry-level position of college graduates interested in merchandise management is either assistant buyer or assistant planner in a merchandise category such as men's athletic shoes or consumer electronics.

want all of their employees to understand their customers and their merchandise. Therefore, most executives and corporate staff managers begin their careers in merchandise or store management.

Store Management

Successful store managers must have the ability to lead and motivate employees. They also need to be sensitive to customers' needs by making sure that merchandise is available and neatly displayed.

Store management involves all the discipline necessary to run a successful business: sales planning and goal setting, overall store image and merchandise presentation, budgets and expense control, customer service and sales supervision, human resource administration and development, and community relations.

Because store managers work in stores, they are often at quite a distance from the home office, which means they have limited direct supervision. Their hours generally mirror those of their store and can therefore include some weekends and evenings. In addition, they spend time during nonoperating hours tending to administrative responsibilities.

The typical entry-level store management position is a department manager with responsibility for merchandise presentation, customer service, and inventory control for an area of the store. The next level is an area or group manager with responsibility for executing merchandising plans and achieving sales goals for several areas, as well as supervising, training, and developing department managers. Beyond these positions, you might be promoted to store manager, then to district manager responsible for a group of stores, and then to regional manager responsible for a group of districts.

Merchandise Management

Merchandise management attracts people with strong analytical capabilities, an ability to predict what merchandise will appeal to their target markets, and a skill for negotiating with vendors as well as store management to get things done. Many retailers have broken the merchandising management activities into two different yet parallel career paths: buying and merchandise planning.

Retail merchandise buyers are similar to financial portfolio managers. They invest in a portfolio of merchandise; monitor the performance (sales) of the merchandise; and on the basis of the sales, either decide to buy more merchandise that is selling well or get rid of (discount) merchandise that is selling poorly. Buyers are responsible for selecting the type and amount of merchandise to buy, negotiating the wholesale price and payment terms with suppliers, setting the initial retail price for the merchandise, monitoring merchandise sales, and making appropriate retail price adjustments. Thus buyers need to have good financial planning skills, knowledge of their customers' needs and wants and competitive activities, and the ability to develop good working relationships with vendors. To develop a better understanding of their customers, buyers typically stay in contact with their stores by visiting them, talking to sales associates and managers, and monitoring the sales data available through their merchandise management systems.

Planners have an even more analytical role than buyers. Their primary responsibility is to determine the assortment of merchandise sent to each store—how many styles, colors, sizes, and individual items. Once the merchandise is in the stores, planners closely monitor sales and work with buyers on decisions such as how much additional merchandise to purchase if the merchandise is doing well or when to mark down the merchandise if sales are below expectations.

The typical entry-level position of college graduates interested in merchandise management is either assistant buyer or assistant planner in a merchandise category such as men's athletic shoes or consumer electronics. In these positions, you will do the sales analysis needed to support the decisions eventually made by the planner or buyer for whom you work. From this entry-level position, you could be promoted to buyer and then divisional merchandise manager, responsible for a number of merchandise categories. Most retailers believe that merchandise management skills are not category-specific. Thus, as you are promoted in the buying organization, you will probably work in various merchandise categories.

Corporate Staff

The corporate staff positions in retail firms involve activities and require knowledge, skills, and abilities similar to those in comparable positions in nonretail firms. Thus, many managers in these positions identify with their profession rather than the retail industry. For example, accountants in retail firms view themselves as accountant, not retailers.

Management Information Systems (MIS) Employees in this area are involved with applications for capturing data and developing and maintaining inventory, as well as the design of store systems such as POS terminals, self-checkout systems, and in-store kiosks.

Operations/Distribution Operations employees are responsible for operating and maintaining the store's physical plant; providing various customer services; overseeing the receipt, ticketing, warehousing, and distribution of a store's inventory; and buying and maintaining store supplies and operating equipment. Students in operations typically major in production, operations, or computer information systems.

Promotion/Advertising Promotion's many aspects include public relations, advertising, visual merchandising, and special events. This department attempts to build the retail firm's brand image and encourage customers to visit the retailer's stores and/or website. Managers in this area typically major in marketing or mass communications.

Loss Prevention Loss prevention employees are responsible for protecting the retailer's assets. They develop systems and procedures to minimize employee theft and shoplifting. Managers in this area often major in sociology or criminology, although, as we discuss in Chapter 15, loss prevention is beginning to be viewed as a human resource management issue.

Finance/Accounting Many retailers are large businesses involved in complicated corporate structures. Most retailers also operate with a tight net profit margin. With such a fine line between success and failure, retailers continue to require financial experts. The finance/accounting division is responsible for the financial health of the company. Employees in this division prepare financial reports for all aspects of the business, including long-range forecasting and planning, economic trend analysis and budgeting, shortage control and internal audits, gross and net profit, accounts payable to vendors, and accounts receivable from charge customers. In addition, they manage the retailer's relationship with the financial community. Students interested in this area often major in finance or accounting.

Real Estate Employees in the real estate division are responsible for selecting locations for stores, negotiating leases and land purchases, and managing the leasehold costs. Students entering this area typically major in real estate or finance.

Store Design Employees working in this area are responsible for designing the store and presenting merchandise and fixtures in the store. Talented, creative students in business, architecture, art, and other related fields will have innumerable opportunities for growth in the area of retail store design.

Human Resource Management Human resource management is responsible for the effective selection, training, placement, advancement, and welfare of employees. Because there are seasonal peaks in retailing (such as Christmas, when many extra people must be hired), human resource personnel must be flexible and highly efficient.

ATTRACTIVENESS OF RETAILING CAREERS

Immediate Responsibility

Management trainees in retailing are given more responsibility more quickly than their counterparts in other industries. Buyers are responsible for choosing, promoting, pricing, distributing, and selling millions of dollars' worth of merchandise each season. The department manager, generally the first position after a training program, is often responsible for merchandising one or more departments, as well as managing 20 or more full- and part-time sales associates.

Many students and their parents think that people working in retailing have jobs as salesclerks and cashiers. They hold this view because, as customers in retail stores, they typically interact only with sales associates, not their managers. But as we have discussed in this chapter, retail firms are large, sophisticated corporations that employ managers with a wide variety of knowledge, skills, and abilities. Entry-level positions for college are typically management trainees in the buying or store organization, not sales associates.

While some employees are promoted on the basis of their retail experience, a college degree is needed for most retail management positions, ranging from store manager to CEO. More than 150 colleges and universities in the United States offer programs of study and degrees or majors in retailing.

Financial Rewards

Starting salaries for management trainees with a college degree range from $30,000 to $60,000 a year, and the compensation of top management ranks with the highest in any industry. For example, store managers with only a few years of experience can earn up to $100,000 or more, depending on their performance bonuses. A senior buyer for a department store earns from $50,000 to $90,000 or more. A big-box store manager can earn from $50,000 to $150,000; a discount store manager makes from $70,000 to $100,000 or more; and a specialty store manager earns from $35,000 to $60,000 or more.

Compensation varies according to the amount of responsibility. Specialty store managers are generally paid less than department store managers because their annual sales volume is lower. But advancements in this area can be faster. Aggressive specialty store managers often are promoted to district managers and run 8 to 15 units after a few years, so they quickly move into higher pay brackets.

Because information systems enable retailers to assess the sales and profit performance of each manager, and even each sales associate, the compensation of retail managers is closely linked to objective measures of their performance. As a result, in addition to their salaries, retail managers are generally given strong monetary incentives based on the sales they create.

A compensation package consists of more than salary alone. In retailing, the benefits package is often substantial and may include a profit-sharing plan, savings plan, stock options, medical and dental insurance, life insurance, long-term disability protection and income protection plans, and paid vacations and holidays. Two additional benefits of retailing careers are that most retailers offer employees valuable discounts on the merchandise they sell, and some buying positions include extensive foreign travel.

Opportunities for Advancement

While the growth rate of retail parallels the growth rate of the overall economy, many opportunities for rapid advancement exist simply because of the sheer size of the retail industry. With so many retail firms, there is always a large number of firms that are experiencing a high growth rate, opening many new stores, and needing store managers and support staff positions.

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