13 Retailing and Wholesaling

Chapter Preview

In the previous chapter, you learned the basics of delivering customer value through good distribution channel design and management. Now, we'll look more deeply into the two major intermediary channel functions: retailing and wholesaling. You already know something about retailing—retailers of all shapes and sizes serve you everyday. However, you probably know much less about the hoard of wholesalers that work behind the scenes. In this chapter, we examine the characteristics of different kinds of retailers and wholesalers, the marketing decisions they make, and trends for the future.

When it comes to retailers, you have to start with Walmart. This megaretailer's phenomenal success has resulted from an unrelenting focus on bringing value to its customers. Day in and day out, Walmart lives up to its promise: "Save money. Live better." That focus on customer value has made Walmart not only the world's largest *retailer* but also the world's largest *company*.

Walmart: The World's Largest *Retailer*—the World's Largest *Company*

Walmart is almost unimaginably big. It's the world's largest retailer—the world's largest company. It rang up an incredible $408 billion in sales last year—1.7 times the sales of competitors Costco, Target, Sears/Kmart, Macy's, JCPenney, and Kohl's *combined*.

Walmart is the number-one seller in several categories of consumer products, including groceries, clothing, toys, CDs, and pet care products. It sells more than twice as many groceries as Kroger, the leading grocery-only food retailer, and its clothing and shoe sales alone last year exceeded the total revenues of Macy's Inc., parent of both Macy's and Bloomingdale's department stores. Incredibly, Walmart sells 30 percent of the disposable diapers purchased in the United States each year, 30 percent of the hair care products, 30 percent of all health and beauty products, 26 percent of the toothpaste, and 20 percent of the pet food. On average, worldwide, Walmart serves customers more than 200 million times per week.

It's also hard to fathom Walmart's impact on the U.S. economy. It's the nation's largest employer—one out of every 220 men, women, and children in the United States is a Walmart associate. Its sales of $1.52 billion on a single day in 2003 exceeded the GDPs of 26 countries. According to one study, Walmart was responsible for about 25 percent of the nation's astonishing productivity gains in the 1990s. Another study found that—through its own low prices and impact on competitors' prices—Walmart saves the average American household $2,500 each year, equivalent to more than six months worth of groceries for the average family.

What's behind this spectacular success? First and foremost, Walmart is passionately dedicated to its long-time, low-price value proposition and what its low prices mean to customers: "Save money. Live better." Its mission is to "lower the world's cost of living." To accomplish this mission, Walmart offers a broad selection of carefully selected goods at "unbeatable low prices." No other retailer has come nearly so close to mastering the concepts of everyday low prices and one-stop shopping. As one analyst put it, "The company gospel . . . is relatively simple: Be an agent for customers—find out what they want and sell it to them for the lowest possible price." Says Walmart's president and CEO, "We're obsessed with delivering value to customers."

How does Walmart make money with such low prices? Walmart is a lean, mean, distribution machine—it has the lowest cost structure in the industry. Low costs let the giant retailer charge lower prices but still reap higher profits. Lower prices attract more shoppers, producing more sales, making the company more efficient, and enabling it to lower prices even more.

Day in and day out, giant Walmart lives up to its promise: "Save money. Live better." Its obsession with customer value has made Walmart not only the world's largest *retailer* but also the world's largest *company*.

Walmart's low costs result in part from superior management and more sophisticated technology. Its Bentonville, Arkansas, headquarters contains a computer communications system that the U.S. Department of Defense would envy, giving managers around the country instant access to sales and operating information. And its huge, fully automated distribution centers employ the latest technology to supply stores efficiently.

Walmart also keeps costs down through good old "tough buying." The company is known for the calculated way it wrings low prices from suppliers. "Don't expect a greeter and don't expect friendly," said one supplier's sales executive after a visit to Walmart's buying offices. "Once you are ushered into one of the spartan little buyers' rooms, expect a steely eye across the table and be prepared to cut your price. They are very, very focused people, and they use their buying power more forcefully than anyone else in America."

At Walmart, the company promises, you'll "Save money. Live better." Says Walmart's CEO, "We're obsessed with delivering value to customers."

Some critics argue that Walmart squeezes its suppliers too hard, driving some out of business. Walmart proponents counter, however, that it is simply acting in its customers' interests by forcing suppliers to be more efficient. And most suppliers seem to agree that although Walmart is tough, it's honest and straightforward in its dealings.

Despite its incredible success over the past four decades, mighty Walmart faces some weighty challenges ahead. Having grown so big, the maturing giant is having difficulty maintaining the exploding growth rates of its youth. To reignite growth, Walmart is pushing into new, faster-growing product and service lines, including organic foods, store brands, in-store health clinics, and consumer financial services. It's also pushing its expansion into international markets and online sales. Still, growth remains a daunting task. Think about this: To grow just 7 percent next year, Walmart will have to add nearly $30 billion in new sales. That's a sales *increase* equivalent to the *total* sales of Coca-Cola, DuPont, or more than 1.5 Nikes. That's a lot of growth.

Recently, to refresh its positioning relative to younger, hipper competitors such as Target, Walmart has been giving itself a modest image face-lift. For example, it's spruced up its stores with a cleaner, brighter, more open look and less clutter to make them more shopper-friendly, like Target. It's added some new, higher-quality merchandise: Many urban Walmarts now carry a slew of higher-end consumer electronics products, from Sony plasma televisions to Dell and Toshiba laptops to Apple iPods. The retailer has also dressed up its apparel racks with more-stylish fashion lines. Finally, Walmart has dropped its old, hard-sell "rollback prices" advertising in favor of softer, more refined lifestyle ads that better support its "Save money. Live better." slogan.

But don't expect Walmart to try to out-Target Target. In fact, given the recently troubled retail economy, Target has moved more toward Walmart than the other way around. During and following the recent recession, Walmart found itself strongly positioned to serve today's thriftier consumers. By contrast, the more stylish Target was forced to drop its prices and margins to avoid losing market share to Walmart. And whereas other retailers' sales suffered in hard times, Walmart's continued to grow.

So even as it brushes up its image, in no way will Walmart ever give up its core low price value proposition. After all, Walmart is and always will be a discount store. "I don't think Walmart's . . . ever going to be edgy," says a Walmart marketer. "I don't think that fits our brand. Our brand is about saving people money" so that they can live better.[1]

The Walmart story sets the stage for examining the fast-changing world of today's resellers. This chapter looks at *retailing* and *wholesaling*. In the first section, we look at the nature and importance of retailing, the major types of store and nonstore retailers, the decisions retailers make, and the future of retailing. In the second section, we discuss these same topics as they apply to wholesalers.

Objective OUTLINE

Author Comment You already know a lot about retailers. You deal with them every day—store retailers, service retailers, online retailers, and others.

Retailing (pp 374–394)

What is retailing? We all know that Costco, Home Depot, Macy's, Best Buy, and Target are retailers, but so are Avon representatives, Amazon.com, the local Hampton Inn, and a doctor seeing patients. **Retailing** includes all the activities involved in selling products or services directly to final consumers for their personal, nonbusiness use. Many institutions—manufacturers, wholesalers, and retailers—do retailing. But most retailing is done by **retailers**, businesses whose sales come *primarily* from retailing.

Retailing
All the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use.

Retailer
A business whose sales come *primarily* from retailing.

Retailing plays a very important role in most marketing channels. Each year, retailers account for more than $4.1 trillion of sales to final consumers. They connect brands to consumers in what marketing agency OgilvyAction, calls "the last mile"—the final stop in the consumer's path to purchase. It's the "distance a consumer travels between an attitude and an action," explains OgilvyAction's CEO. Some 40 percent of all consumer decisions are made in or near the store. Thus, retailers "reach consumers at key moments of truth, ultimately [influencing] their actions at the point of purchase."[2]

In fact, many marketers are now embracing the concept of **shopper marketing**, using in-store promotions and advertising to extend brand equity to "the last mile" and encourage favorable in-store purchase decisions. Shopper marketing recognizes that the retail store itself is an important marketing medium. Thus, marketing must drive shoppers to action at the store level. For example, P&G follows a "store back" concept, in which all marketing ideas need to be effective at the store-shelf level and work back from there. "We are now brand-building from the eyes of the consumer toward us," says a P&G executive.[3]

Shopper marketing: Connecting with customers in "the last mile"—all marketing ideas need to be effective at the store-shelf level and work back from there.

Point-of-sale marketing inside a large retail store chain can produce the same kinds of numbers as advertising on a hit TV show. For example, whereas 21 million people watch an average episode of *Dancing with the Stars*, even bigger crowds attack the aisles of large retailers. Costco, Walgreens, Safeway, and Kroger attract 20 million, 30 million, 44 million, and 68 million weekly shoppers, respectively. Another 150 million people pass through the automatic doors of Walmart stores across America each week. What's more, unlike TV advertising's remote impact, point-of-sale promotions hit consumers when they are actually making purchase decisions.[4]

Shopper marketing
Using in-store promotions and advertising to extend brand equity to "the last mile" and encourage favorable in-store purchase decisions.

Shopper marketing involves focusing the entire marketing process—from product and brand development to logistics, promotion, and merchandising—toward turning shoppers into buyers at the point of sale. Of course, every well-designed marketing effort focuses on customer buying behavior. But the concept of shopper marketing suggests that these efforts should be coordinated around the shopping process itself. "By starting with the store and working backward, you design an integrated program that make sense to the consumer."[5]

Although most retailing is done in retail stores, in recent years *nonstore retailing* has been growing much faster than store retailing. Nonstore retailing includes selling to final consumers via the Internet, direct mail, catalogs, the telephone, and other direct-selling approaches. We discuss such direct-marketing approaches in detail in Chapter 17. In this chapter, we focus on store retailing.

Types of Retailers

Retail stores come in all shapes and sizes—from your local hairstyling salon or family-owned restaurant to national specialty chain retailers such as REI or Williams-Sonoma to megadiscounters such as Costco or Walmart. The most important types of retail stores are described in **Table 13.1** and discussed in the following sections. They can be classified in terms of several characteristics, including the *amount of service* they offer, the breadth and depth of their *product lines*, the *relative prices* they charge, and how they are *organized*.

TABLE | 13.1 Major Store Retailer Types

Type	Description	Examples
Specialty store	A store that carries a narrow product line with a deep assortment, such as apparel stores, sporting-goods stores, furniture stores, florists, and bookstores. A clothing store would be a *single-line* store, a men's clothing store would be a *limited-line* store, and a men's custom-shirt store would be a *superspecialty* store.	REI, Radio Shack, Williams-Sonoma
Department store	A store that carries several product lines—typically clothing, home furnishings, and household goods—with each line operated as a separate department managed by specialist buyers or merchandisers.	Macy's, Sears, Neiman Marcus
Supermarket	A relatively large, low-cost, low-margin, high-volume, self-service operation designed to serve the consumer's total needs for grocery and household products.	Kroger, Safeway, Supervalu, Publix
Convenience store	A relatively small store located near residential areas, open long hours seven days a week, and carrying a limited line of high-turnover convenience products at slightly higher prices.	7-Eleven, Stop-N-Go, Circle K, Sheetz
Discount store	A store that carries standard merchandise sold at lower prices with lower margins and higher volumes.	Walmart, Target, Kohl's
Off-price retailer	A store that sells merchandise bought at less-than-regular wholesale prices and sold at less than retail: often leftover goods, overruns, and irregulars obtained at reduced prices from manufacturers or other retailers. These include *factory outlets* owned and operated by manufacturers; *independent off-price retailers* owned and run by entrepreneurs or by divisions of larger retail corporations; and *warehouse* (*or wholesale*) *clubs* selling a limited selection of brand-name groceries, appliances, clothing, and other goods at deep discounts to consumers who pay membership fees.	Mikasa (factory outlet); TJ Maxx (independent off-price retailer); Costco, Sam's Club, BJ's Wholesale Club (warehouse clubs)
Superstore	A very large store traditionally aimed at meeting consumers' total needs for routinely purchased food and nonfood items. This category includes *supercenters*, combined supermarket and discount stores, and *category killers*, which carry a deep assortment in a particular category and have a knowledgeable staff.	Walmart Supercenter, SuperTarget, Meijer (discount stores); Best Buy, PetSmart, Staples, Barnes & Noble (category killers)

Amount of Service

Different types of customers and products require different amounts of service. To meet these varying service needs, retailers may offer one of three service levels: self-service, limited service, and full service.

Self-service retailers serve customers who are willing to perform their own "locate-compare-select" process to save time or money. Self-service is the basis of all discount operations and is typically used by retailers selling convenience goods (such as supermarkets) and nationally branded, fast-moving shopping goods (such as Target or Kohl's). *Limited-service retailers*, such as Sears or JCPenney, provide more sales assistance because they carry more shopping goods about which customers need information. Their increased operating costs result in higher prices.

In *full-service retailers*, such as high-end specialty stores (for example, Tiffany or Williams-Sonoma) and first-class department stores (such as Nordstrom or Neiman Marcus), salespeople assist customers in every phase of the shopping process. Full-service stores usually carry more specialty goods for which customers need or want assistance or advice. They provide more services resulting in much higher operating costs, which are passed along to customers as higher prices.

Product Line

Specialty store
A retail store that carries a narrow product line with a deep assortment within that line.

Department store
A retail organization that carries a wide variety of product lines—each line is operated as a separate department managed by specialist buyers or merchandisers.

Supermarket
A large, low-cost, low-margin, high-volume, self-service store that carries a wide variety of grocery and household products.

Retailers can also be classified by the length and breadth of their product assortments. Some retailers, such as **specialty stores**, carry narrow product lines with deep assortments within those lines. Today, specialty stores are flourishing. The increasing use of market segmentation, market targeting, and product specialization has resulted in a greater need for stores that focus on specific products and segments.

In contrast, **department stores** carry a wide variety of product lines. In recent years, department stores have been squeezed between more focused and flexible specialty stores on the one hand and more efficient, lower-priced discounters on the other. In response, many have added promotional pricing to meet the discount threat. Others have stepped up the use of store brands and single-brand "designer shops" to compete with specialty stores. Still others are trying catalog, telephone, and Web selling. Service remains the key differentiating factor. Retailers such as Nordstrom, Saks, Neiman Marcus, and other high-end department stores are doing well by emphasizing exclusive merchandise and high-quality service.

Supermarkets are the most frequently shopped type of retail store. Today, however, they are facing slow sales growth because of slower population growth and an increase in competition from discount supercenters (Walmart) on the one hand and specialty food stores (Whole Foods Market, Trader Joe's) on the other. Supermarkets also have been hit hard by the rapid growth of out-of-home eating over the past two decades. In fact, supermarkets' share of the groceries and consumables market plunged from 89 percent in 1989 to less than 50 percent in 2008.[6] Thus, many traditional supermarkets are facing hard times.

In the battle for "share of stomachs," some supermarkets have moved upscale, providing improved store environments and higher-quality food offerings, such as from-scratch bakeries, gourmet deli counters, natural foods, and fresh seafood departments. Others, however, are attempting to compete head-on with food discounters such as Costco and Walmart, the nation's largest grocery seller, by cutting costs, establishing more-efficient operations, and lowering prices. For example, Kroger, the nation's largest grocery-only retailer has done this successfully:

> Despite the recently sagging economy, while other grocery chains have suffered, Kroger's sales have grown steadily. The chain's seven-year-old strategy of cutting costs and lowering prices has put Kroger in the right position for the times. The food seller's price reductions have been just one part of a four-pronged strategy called "Customer First," by which Kroger seeks to continually improve its response to shopper needs through its prices, products, people, and the shopping experience it creates in its stores. The Customer First effort began at a time when most other traditional supermarkets were trying to distinguish themselves from discount food retailers by emphasizing

Thanks to customer-focused pricing, despite a sagging economy, leading grocery-only retailer Kroger's sales and market share gains have been the best in the industry. Kroger gives you "more value for the way you live."

higher-level service, quality, and selection. But instead of trying to maintain higher prices, Kroger recognized lower prices as an important part of the changing food-buying experience. Guided by a detailed analysis of customer sales data, it made substantial costs and price cuts, beginning with the most price-sensitive products and categories and then expanding to include additional items each year. To help cost-conscious customers further, Kroger also boosted its private-label offerings. It now offers more than 11,000 private-label items, which account for more than 27 percent of its overall sales. Thanks to customer-focused pricing, Kroger's recent sales and market-share gains have been the best in the supermarket industry. The food retailer is now well positioned to take advantage of better economic days ahead.[7]

Convenience store
A small store, located near a residential area, that is open long hours seven days a week and carries a limited line of high-turnover convenience goods.

Convenience stores are small stores that carry a limited line of high-turnover convenience goods. After several years of stagnant sales, convenience stores are now experiencing healthy growth. Last year, U.S. convenience stores posted sales of $624 billion, an 8 percent increase over the previous year. About 75 percent of overall convenience store revenues come from sales of gasoline; a majority of in-store sales are from tobacco products (33 percent) and beer and other beverages (24 percent).[8]

In recent years, convenience store chains have tried to expand beyond their primary market of young, blue-collar men, redesigning their stores to attract female shoppers. They are shedding the image of a "truck stop" where men go to buy beer, cigarettes, or shriveled hotdogs on a roller grill and are instead offering freshly prepared foods and cleaner, safer, more-upscale environments. For example, consider Sheetz, widely recognized as one of the nation's top convenience stores. Driven by its Total Customer Focus mission and the motto "Feel the Love," Sheetz aims to provide "convenience without compromise while being more than just a convenience store. It's our devotion to your satisfaction that makes the difference."[9]

Whether it's for road warriors, construction workers, or soccer moms, Sheetz offers "a mecca for people on the go"—fast, friendly service and quality products in clean and convenient locations. "We really care about our customers," says the company. "If you need to refuel your car or refresh your body, . . . Sheetz has what you need, when you need it. And, we're here 24/7/365." Sheetz certainly isn't your run-of-the-mill convenience store operation. Stores offer up a menu of made-to-order cold and toasted subs, sandwiches, and salads, along with hot fries, onion rings, chicken fingers, and burgers—all ordered through touch-screen terminals. Locations feature Sheetz Bros. Coffeez, a full-service espresso bar staffed by a trained barista. Frozen fruit smoothies round out the menu. To help make paying easier, Sheetz was the first chain in the nation to install system-wide MasterCard PayPass, allowing customers to quickly tap their credit cards and go. Sheetz also partnered with M&T Bank to offer ATM services at any Sheetz without a surcharge. Some analysts say that Sheetz aims to become the Walmart of convenience stores, and it just might get there. The average Sheetz store is nearly twice the size of the average 7-Eleven. And although the privately held company

Convenience stores: Sheetz positions itself as more than just a convenience store. Driven by its Total Customer Focus mission and the motto "Feel the Love," Sheetz aims to provide "convenience without compromise."

now operates in only six states, it generates sales of more than $3.7 billion. President and CEO Stan Sheetz was recently named by *Chain Store Age* on its list of the top 25 people who have completely changed the way the world does business.

Superstore
A store much larger than a regular supermarket that offers a large assortment of routinely purchased food products, nonfood items, and services.

Superstores are much larger than regular supermarkets and offer a large assortment of routinely purchased food products, nonfood items, and services. Walmart, Target, Meijer, and other discount retailers offer *supercenters*, very large combination food and discount stores. Whereas a traditional grocery store brings in about $333,000 a week in sales, a supercenter brings in about $1.5 million a week. Walmart, which opened its first supercenter in 1988, now has more than 2,750 supercenters worldwide and is opening new ones at a rate of about 140 per year.[10]

Category killer
A giant specialty store that carries a very deep assortment of a particular line and is staffed by knowledgeable employees.

Recent years have also seen the explosive growth of superstores that are actually giant specialty stores, the so-called **category killers** (e.g., Best Buy, Home Depot, and PetSmart). They feature stores the size of airplane hangars that carry a very deep assortment of a particular line with a knowledgeable staff. Category killers are prevalent in a wide range of categories, including electronics, home-improvement products, books, baby gear, toys, linens and towels, party goods, sporting goods, and even pet supplies.

Service retailer
A retailer whose product line is actually a service, including hotels, airlines, banks, colleges, and many others.

Finally, for many retailers, the product line is actually a service. **Service retailers** include hotels and motels, banks, airlines, colleges, hospitals, movie theaters, tennis clubs, bowling alleys, restaurants, repair services, hair salons, and dry cleaners. Service retailers in the United States are growing faster than product retailers.

Relative Prices

Retailers can also be classified according to the prices they charge (see Table 13.1). Most retailers charge regular prices and offer normal-quality goods and customer service. Others offer higher-quality goods and service at higher prices. Retailers that feature low prices are discount stores and "off-price" retailers.

Discount store
A retail operation that sells standard merchandise at lower prices by accepting lower margins and selling at higher volume.

Discount Stores. A **discount store** (e.g., Target, Kmart, and Walmart) sells standard merchandise at lower prices by accepting lower margins and selling higher volume. The early discount stores cut expenses by offering few services and operating in warehouselike facilities in low-rent, heavily traveled districts.

Today's discounters have improved their store environments and increased their services, while at the same time keeping prices low through lean, efficient operations. Leading "big-box" discounters, such as Walmart, Costco, and Target, now dominate the retail scene. However, even "small-box" discounters are thriving in the current economic environment. For example, dollar stores are now today's fastest-growing retail format. Dollar General, the nation's largest small-box discount retailer, makes a powerful value promise for the times: "Save time. Save money. Every day." (See Real Marketing 13.1.)

Off-price retailer
A retailer that buys at less-than-regular wholesale prices and sells at less than retail. Examples are factory outlets, independents, and warehouse clubs.

Off-Price Retailers. As the major discount stores traded up, a new wave of **off-price retailers** moved in to fill the ultralow-price, high-volume gap. Ordinary discounters buy at regular wholesale prices and accept lower margins to keep prices down. In contrast, off-price retailers buy at less-than-regular wholesale prices and charge consumers less than retail. Off-price retailers can be found in all areas, from food, clothing, and electronics to no-frills banking and discount brokerages.

Independent off-price retailer
An off-price retailer that is either independently owned and run or is a division of a larger retail corporation.

The three main types of off-price retailers are *independents*, *factory outlets*, and *warehouse clubs*. **Independent off-price retailers** either are independently owned and run or are divisions of larger retail corporations. Although many off-price operations are run by smaller independents, most large off-price retailer operations are owned by bigger retail chains. Examples include store retailers such as TJ Maxx and Marshalls, owned by TJX Companies, and Web sellers such as Overstock.com.

Factory outlet
An off-price retailing operation that is owned and operated by a manufacturer and normally carries the manufacturer's surplus, discontinued, or irregular goods.

Factory outlets—manufacturer-owned and operated stores by firms such as J. Crew, Gap, Levi Strauss, and others—sometimes group together in *factory outlet malls* and *value-retail centers*, where dozens of outlet stores offer prices as much as 50 percent below retail on a wide range of mostly surplus, discounted, or irregular goods. Whereas outlet malls consist primarily of manufacturers' outlets, value-retail centers combine manufacturers' outlets

Real Marketing 13.1

Dollar General:
Today's Hottest Retailing Format

"Save time. Save money. Every day." Given today's economics, that sounds like a winning proposition. In fact, it's the slogan of discount retailer Dollar General—and it *is* a winning proposition. "Dollar stores" and other hard discounters are today's hottest retailing format, and Dollar General is the nation's leading dollar store.

Whereas the Walmarts, Costcos, and Targets of the world are "big-box" discounters, Dollar General and the other dollar stores are "small-box" discounters. They are still only a relatively small threat to their bigger rivals; the combined annual sales of all dollar stores amount to only about 15 percent of Walmart's annual sales. But they are by far the fastest-growing threat. In the recent down economy, as the big-box discounters have struggled, the dollar stores have spurted, rapidly adding new stores, customers, and sales. "Nowhere in the retail world are we seeing more growth than from the dollar store sector," says a retailing analyst.

For example, Dollar General's cash registers are really ringing these days. Over the past 40 years, the retailer's sales have grown from $40 million to nearly $12 billion—an average growth rate of 14 percent a year. During the past two years, even as the economy withered and competitors' sales suffered, Dollar General's same-store sales grew more than 9 percent each year. The company now operates 8,800 stores in 35 states, and it plans to open 600 new stores this year and overhaul another 500. It plans eventually to grow to more than 12,000 stores (about equivalent to the number of McDonald's restaurants nationwide and more than 20 times the number of Target stores).

What's the story behind Dollar General's success? If you haven't been in a dollar store lately, you might be surprised at what you'd find. Back in the day, dollar stores sold mostly odd-lot assortments of novelties, factory overruns, closeouts, and outdated merchandise—most priced at $1. Not anymore. "Dollar stores have come a long way, baby," says another retailing analyst. "The Great Recession accelerated the iconic American chains' transformation from purveyors of kitschy $1 trinkets to discounters in a position to lure shoppers from the likes of supermarkets, drugstores, and Walmart stores." Dollar General now sells a carefully selected assortment of mostly brand-name items. More than two-thirds of its sales come from groceries and household goods. And it isn't really a "dollar store" anymore. Only 25 percent of its merchandise is now priced at a dollar or less.

Dollar General's "Save time. Save money. Every day." slogan isn't just for show. It's a carefully crafted statement of the store's value promise. The company sums up its positioning this way: "Our goal is to provide our customers a better life, and we think our customers are best served when we keep it real and keep it simple. We make shopping for everyday needs simpler and hassle-free by offering a carefully edited assortment of the most popular brands at low everyday prices in small, convenient locations."

Dollar General saves customers time by keeping things simple. Its carefully edited product assortment includes only about 12,000 core items (compared with 47,000 items in an average supermarket or 142,000 items in a Walmart supercenter). But Dollar General still stocks your favorite sizes and many of your favorite quality brands, such as Coca-Cola, Bounty, Palmolive, Hefty, Kraft, Folgers, and Betty Crocker. Dollar General has even added brands such as Hanes underwear, L'Oreal cosmetics, and Rexall vitamins and herbal supplements.

Keeping it simple also means smaller stores. Dollar General stores average about 7,100 square feet in size—you could fit more than 25 Dollar General stores inside the average Walmart supercenter. And most stores are located in convenient strip malls. That means customers can usually park right in front of a store. Once inside, they encounter fewer aisles to navigate, fewer goods to consider, and smaller crowds to out-wrangle than in big-box stores. All that adds up to a quick trip. The average Dollar General customer is in and out of the store in less than 10 minutes. Although Dollar General is experimenting with larger format stores that carry produce, meat, and baked goods, those Super Dollar Generals are still much, much smaller and more manageable than a Walmart supercenter.

As for the "save money" part of the value promise, Dollar General's prices on the brand-name products it carries are an estimated 20–40 percent lower than grocery store prices and are roughly in line with those of the big-name discount stores. There are also plenty of savings to be had on dollar items and the increasing selection of Dollar General private-label merchandise. Finally, Dollar General gets a boost from customer perceptions of its dollar store format. Even though only about 25 percent of its goods are priced at $1 or less, almost anything in the store can be had for less than $10. That lends assurance that not only draws customers in but also allows them to shop a little more freely than they would elsewhere.

Keeping things simple for consumers also benefits the company's bottom line. Smaller stores are less expensive to operate, and locating them in smaller markets and less glamorous neighborhoods keeps real estate costs down as well. Dollar General's cost per square foot is as low as one-tenth that of supermarkets. Cheaper stores have also allowed Dollar General to build more of them. In fact, Dollar General now has more stores in the United States than any other discounter.

Discounter Dollar General, the nation's largest small-box discount retailer, makes a powerful value promise for the times: "Save time. Save money. Every day."

Continued on next page

Dollar General's product mix strategy also contributes to its financial performance. Although it carries top brands, it leans toward brands that are not market leaders. Customers are more likely to encounter Gain than Tide. Stores don't stock products in all sizes, just the ones that sell the best. Finally, Dollar General's merchandise buyers focus on getting the best deals possible at any given time. This opportunistic buying might mean Heinz ketchup one month and Hunts the next. Such practices contribute to lower costs and higher margins.

The recently sagging economy gave Dollar General and other dollar stores a real boost as consumers looked for ways to cut their spending. Not only is Dollar General attracting more sales from existing customers, it's also attracting new higher-income customers. A recent survey showed that 65 percent of consumers with incomes under $50,000 had shopped at a dollar store in the past three months. However, 47 percent of households with incomes over $100,000 had done so as well. Although its core customers are still those who make less than $40,000 a year, Dollar General's fastest-growth segment is those earning more than $75,000 a year.

Put it all together, and things are sizzling right now at the nation's largest small-box discount retailer. Dollar General has the right value proposition for the times. But what will happen to Dollar General and its fellow dollar stores as economic conditions improve? Will newly acquired customers abandon them and return to their previous shopping haunts?

Dollar General doesn't think so. Dollar stores seem to do as well in good times as in bad. The format had already been growing at a healthy rate before the economy soured. And customers who recently switched over show no signs of relapsing into their old, free-spending ways. We "see signs of a new consumerism," says Dollar General's CEO, as people shift where they shop, switch to lower-cost brands, and stay generally more frugal. And company research shows that 97 percent of new customers plan to continue shopping at Dollar General even if the economy improves, the same percentage as old customers. Low prices and convenience, it seems, will not soon go out of style.

Sources: Mary Ellen Lloyd, "Dollar General Profit Rises 6.5%," *Wall Street Journal*, March 31, 2010; Suzanne Kapner, "The Mighty Dollar," *Fortune*, April 15, 2009, accessed at http://money.cnn.com/2009/04/14/news/companies/kapner_dollar.fortune/index.htm; Jack Neff, "Stuck-in-the-Middle Walmart Starts to Lose Share," *Advertising Age*, March 8, 2010, pp. 1, 23; Kelly Evans, "Dollar General Flexing Its Discount Muscle," *Wall Street Journal*, March 31, 2010, accessed at www.wsj.com; and information from www.dollargeneral.com, accessed November 2010.

with off-price retail stores and department store clearance outlets. Factory outlet malls have become one of the hottest growth areas in retailing.

The malls in general are now moving upscale—and even dropping "factory" from their descriptions. A growing number of outlet malls now feature luxury brands such as Coach, Polo Ralph Lauren, Dolce&Gabbana, Giorgio Armani, Burberry, and Versace. As consumers become more value-minded, even upper-end retailers are accelerating their factory outlet strategies, placing more emphasis on outlets such as Nordstrom Rack, Neiman Marcus Last Call, Bloomingdale's Outlets, and Saks Off 5th. Many companies now regard outlets not simply as a way of disposing of problem merchandise but as an additional way of gaining business for fresh merchandise.

The combination of highbrow brands and lowbrow prices found at outlets provides powerful shopper appeal, especially in a tighter economy:[11]

> Faced with unprecedented sales declines at full-price stores, a growing group of high-end retailers and luxury brands are building more factory outlets, where sales have fared much better. It is a strategy that would likely have backfired during the 1980s recession when outlets were bare-bones boxes built in the middle of nowhere and designers routinely cut out labels before selling them to off-price retailers to protect their brand's cachet. "These days, customers are saying they want a brand, customer service, *and* a deal," says the president of Saks's Off 5th outlet division.
>
> What else explains the host of weekday afternoon shoppers recently standing elbow to elbow inside a Coach factory store, as word of an unadvertised sale spread around one outdoor mall? Two clerks directed traffic at the door. Another walked in and out of the stock room armed with fresh handbags and wallets. Three cashiers rang up sales as customers stood in line. Shopper Joan Nichols scored a $458 violet leather satchel from Coach's Parker collection for $145. Her 19-year-old daughter bought a $468 cream Coach logo handbag for $130. Their savings: about 70 percent each. "If [spending's tight]," Nichols said, "it's not apparent here."

Warehouse club
An off-price retailer that sells a limited selection of brand name grocery items, appliances, clothing, and a hodgepodge of other goods at deep discounts to members who pay annual membership fees.

Warehouse clubs (or *wholesale clubs* or *membership warehouses*), such as Costco, Sam's Club, and BJ's, operate in huge, drafty, warehouselike facilities and offer few frills. However, they offer ultralow prices and surprise deals on selected branded merchandise. Warehouse clubs have grown rapidly in recent years. These retailers appeal not only to low-income consumers seeking bargains on bare-bones products but also all kinds of customers shopping for a wide range of goods, from necessities to extravagances.

Consider Costco, now the nation's third-largest retailer, behind only Walmart and Kroger. Low price is an important part of Costco's equation, but what really sets Costco apart is the products it carries and the sense of urgency that it builds into the Costco shopper's store experience.[12]

Warehouse clubs: Costco is a retail treasure hunt, where one's shopping cart could contain a $50,000 diamond ring resting on top of a vat of mayonnaise.

Costco brings flair to an otherwise dreary setting. Alongside the gallon jars of peanut butter and 2,250-count packs of Q-Tips, Costco offers an ever-changing assortment of high-quality products—even luxuries—all at tantalizingly low margins. As one industry analyst puts it, "Costco is a retail treasure hunt, where one's shopping cart could contain a $50,000 diamond ring resting on top of a vat of mayonnaise." It's the place where high-end products meet deep-discount prices. In just one year, Costco sold 91 million hot dog and soda combinations (still only $1.50 as they have been for more than 25 years). At the same time, it sold more than 96,000 carats of diamonds at up to $100,000 per item. It's the nation's biggest baster of poultry (77,000 rotisserie chickens a day at $4.99) but also the country's biggest seller of fine wines (including the likes of a Chateau Cheval Blanc Premier Grand Cru Classe at $1,750 a bottle). It once even offered a Pablo Picasso drawing at Costco.com for only $129,999.99!

Each Costco store is a theater of retail that creates buying urgency and excitement for customers. Mixed in with its regular stock of staples, Costco features a glittering, constantly shifting array of one-time specials, such as discounted Prada bags, Calloway golf clubs, or Kenneth Cole bags—deals you just won't find anywhere else. In fact, of the 4,000 items that Costco carries, 1,000 are designated as "treasure items" (Costco's words). The changing assortment and great prices keep people coming back, wallets in hand. There was a time when only the great, unwashed masses shopped at off-price retailers, but Costco has changed all that. Even people who don't have to pinch pennies shop there.

Organizational Approach

Although many retail stores are independently owned, others band together under some form of corporate or contractual organization. The major types of retail organizations—*corporate chains*, *voluntary chains*, *retailer cooperatives*, and *franchise organizations* are described in **Table 13.2**.

Chain stores
Two or more outlets that are commonly owned and controlled.

Chain stores are two or more outlets that are commonly owned and controlled. They have many advantages over independents. Their size allows them to buy in large quantities at lower prices and gain promotional economies. They can hire specialists to deal with areas such as pricing, promotion, merchandising, inventory control, and sales forecasting.

The great success of corporate chains caused many independents to band together in one of two forms of contractual associations. One is the *voluntary chain*—a wholesaler-sponsored group of independent retailers that engages in group buying and common merchandising. Examples include the Independent Grocers Alliance (IGA), Western Auto, and Do-It Best. The other type of contractual association is the *retailer cooperative*—a group of independent retailers that bands together to set up a jointly owned, central wholesale operation and conduct joint merchandising and promotion efforts. Examples are Associated Grocers and Ace Hardware. These organizations give independents the buying and promotion economies they need to meet the prices of corporate chains.

Franchise
A contractual association between a manufacturer, wholesaler, or service organization (a franchisor) and independent businesspeople (franchisees) who buy the right to own and operate one or more units in the franchise system.

Another form of contractual retail organization is a **franchise**. The main difference between franchise organizations and other contractual systems (voluntary chains and retail

TABLE | 13.2 Major Types of Retail Organizations

Type	Description	Examples
Corporate chain store	Two or more outlets that are commonly owned and controlled. Corporate chains appear in all types of retailing, but they are strongest in department stores, discount stores, food stores, drug stores, and restaurants.	Sears (department stores), Target (discount stores), Kroger (grocery stores), CVS (drugstores)
Voluntary chain	Wholesaler-sponsored group of independent retailers engaged in group buying and merchandising.	Independent Grocers Alliance (IGA), Do-It Best (hardware), Western Auto, True Value
Retailer cooperative	Group of independent retailers who jointly establish a central buying organization and conduct joint promotion efforts.	Associated Grocers (groceries), Ace Hardware (hardware)
Franchise organization	Contractual association between a franchisor (a manufacturer, wholesaler, or service organization) and franchisees (independent businesspeople who buy the right to own and operate one or more units in the franchise system).	McDonald's, Subway, Pizza Hut, Jiffy Lube, Meineke Mufflers, 7-Eleven

cooperatives) is that franchise systems are normally based on some unique product or service; a method of doing business; or the trade name, goodwill, or patent that the franchisor has developed. Franchising has been prominent in fast-food restaurants, motels, health and fitness centers, auto sales and service, and real estate.

But franchising covers a lot more than just burger joints and fitness centers. Franchises have sprung up to meet just about any need. For example, Mad Science Group franchisees put on science programs for schools, scout troops, and birthday parties. And Mr. Handyman provides repair services for homeowners, while Merry Maids tidies up their houses.

Once considered upstarts among independent businesses, franchises now command 40 percent of all retail sales in the United States. These days, it's nearly impossible to stroll down a city block or drive on a city street without seeing a McDonald's, Subway, Jiffy Lube, or Holiday Inn. One of the best-known and most successful franchisers, McDonald's, now has 32,000 stores in 118 countries, including almost 14,000 in the United States. It serves 58 million customers a day and racks up more than $54 billion in annual systemwide sales. Nearly 80 percent of McDonald's restaurants worldwide are owned and operated by franchisees. Gaining fast is Subway, one of the fastest-growing franchises, with more than 32,000 shops in 91 countries, including more than 23,000 in the United States.[13]

Retailer Marketing Decisions

Retailers are always searching for new marketing strategies to attract and hold customers. In the past, retailers attracted customers with unique product assortments and more or better services. Today, retail assortments and services are looking more and more alike. Many national-brand manufacturers, in their drive for volume, have placed their brands almost

Franchising: These days, it's nearly impossible to stroll down a city block or drive on a suburban street without seeing a McDonald's, Jiffy Lube, Subway, or Holiday Inn.

everywhere. You can find most consumer brands not only in department stores but also in mass-merchandise discount stores, off-price discount stores, and all over the Web. Thus, it's now more difficult for any one retailer to offer exclusive merchandise.

Service differentiation among retailers has also eroded. Many department stores have trimmed their services, whereas discounters have increased theirs. Customers have become smarter and more price sensitive. They see no reason to pay more for identical brands, especially when service differences are shrinking. For all these reasons, many retailers today are rethinking their marketing strategies.

As shown in **Figure 13.1**, retailers face major marketing decisions about *segmentation and targeting*, *store differentiation and positioning*, and the *retail marketing mix*.

Segmentation, Targeting, Differentiation, and Positioning Decisions

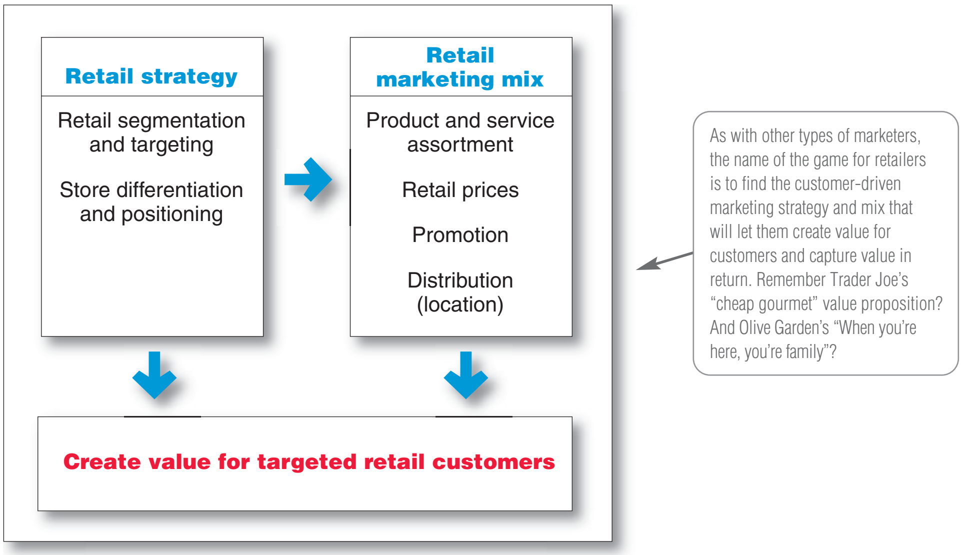
Retailers must first segment and define their target markets and then decide how they will differentiate and position themselves in these markets. Should the store focus on upscale, midscale, or downscale shoppers? Do target shoppers want variety, depth of assortment, convenience, or low prices? Until they define and profile their markets, retailers cannot make consistent decisions about product assortment, services, pricing, advertising, store décor, or any of the other decisions that must support their positions.

Too many retailers, even big ones, fail to clearly define their target markets and positions. For example, what market does the clothing chain Gap target? What is its value proposition and positioning? If you're having trouble answering those questions, you're not alone—so is Gap's management.[14]

> Gap was founded in San Francisco in 1969 by Doris and Don Fisher with the intent to "make it easier to find a pair of jeans." By its heyday in the late 1980s and early 1990s, Gap was solidly positioned on the then-fashionable preppy look. But as its core customers aged and moved on, Gap stores didn't. In the past five years, as the chain has struggled unsuccessfully to define new positioning that works with today's younger shoppers, Gap store sales have slipped more than 22 percent. Says one industry expert, "Gap is in danger of death by a thousand cuts. Abercrombie & Fitch does the authentic preppy look. Uniqlo sells staples such as cashmere [sweaters] and scarves for a penny apiece. Primark, Topshop, and Zara offer access to high-end fashion cheaply, so what is left?" Agrees another expert, "Right now, Gap could be anything. It hasn't got a story." The answer? Gap needs to "define who the brand's core customers are and be exceptional to them; make distinctive and desirable clothes; and be noticed."

In contrast, successful retailers define their target markets well and position themselves strongly. For example, Walmart positions itself strongly on low prices and what those always

FIGURE | 13.1
Retailer Marketing Strategy



Retail targeting and positioning: Whole Foods Market succeeds by positioning itself strongly away from Walmart and other discounters. A devoted Whole Foods Market customer is more likely to boycott the local Walmart than to shop at it.

low prices mean to its customers. It promises that customers will "Save money. Live better."

But if giant Walmart owns the low-price position, how can other retailers hope to compete? Again, the answer is good targeting and positioning. For example, Whole Foods Market has fewer than 300 stores and slightly more than $8 billion in sales versus Walmart's more than 8,400 stores worldwide and sales of $408 billion.[15] How does this small grocery chain compete with Walmart? It doesn't—at least not directly. Whole Foods Market succeeds by carefully positioning itself *away* from Walmart (remember the Whole Foods Market story in Chapter 10?). It targets a select group of upscale customers and offers them "organic, natural, and gourmet foods, all swaddled in Earth Day politics." In fact, a devoted Whole Foods Market customer is more likely to boycott the local Walmart than to shop at it.

Whole Foods Market can't match Walmart's massive economies of scale, incredible volume purchasing power, ultraefficient logistics, wide selection, and hard-to-beat prices. But then again, it doesn't even try. By positioning itself strongly away from Walmart and other discounters, Whole Foods Market has grown rapidly over the past two decades and is now more than holding its own, even in tighter economic times.

Product Assortment and Services Decision

Retailers must decide on three major product variables: product assortment, services mix, and store atmosphere.

The retailer's product assortment should differentiate the retailer while matching target shoppers' expectations. One strategy is to offer merchandise that no other competitor carries, such as store brands or national brands on which it holds exclusives. For example, Saks gets exclusive rights to carry a well-known designer's labels. It also offers its own private-label lines—the Saks Fifth Avenue Signature, Classic, and Sport collections. At JCPenney, private-label and exclusive brands account for 52 percent of its sales.[16]

Another strategy is to feature blockbuster merchandising events. Bloomingdale's is known for running spectacular shows featuring goods from a certain country, such as India or China. Or the retailer can offer surprise merchandise, as when Costco offers surprise assortments of seconds, overstocks, and closeouts. Finally, the retailer can differentiate itself by offering a highly targeted product assortment: Lane Bryant carries plus-size clothing; Brookstone offers an unusual assortment of gadgets and gifts; and BatteryDepot.com offers about every imaginable kind of replacement battery.

The *services mix* can also help set one retailer apart from another. For example, some retailers invite customers to ask questions or consult service representatives in person or via phone or keyboard. Nordstrom promises to "take care of the customer, no matter what it takes." Home Depot offers a diverse mix of services to do-it-yourselfers, from "how-to" classes and "do-it-herself" and kid workshops to a proprietary credit card.

The *store's atmosphere* is another important element in the reseller's product arsenal. Retailers want to create a unique store experience, one that suits the target market and moves customers to buy. Many retailers practice "experiential retailing." For example, at several REI stores, consumers can get hands-on experience with merchandise before buying it via the store's mountain bike test trail, gear-testing stations, a huge rock climbing wall, or an in-store simulated rain shower. Similarly, outdoor goods retailer Cabela's stores are as much natural history museums for outdoor enthusiasts as they are retail outlets (see Real Marketing 13.2).

Experiential retailing: At this REI store, consumers can get hands-on experience with merchandise via the store's mountain bike test trail, gear-testing stations, a huge rock climbing wall, or an in-store simulated rain shower.

Real Marketing 13.2

Cabela's: Creating a Sense of Wonder for People Who Hate to Shop

At first glance, outdoor-products retailer Cabela's seems to break all the rules of retailing. First, it locates its stores in tiny, off-the-beaten-path locations—places like Sidney, Nebraska; Prairie du Chien, Wisconsin; Dundee, Michigan; Owatonna, Minnesota; and Gonzales, Louisiana. Then, to make matters worse, it targets customers who hate to shop! The typical Cabela's customer is a reclusive male outdoorsman who yearns for the great outdoors, someone who detests jostling crowds and shopping.

So how do you explain Cabela's success? Over the past decade, Cabela's has evolved from a mail-order catalog business into a popular $2.6 billion multichannel retailer. Despite Cabela's often remote locations, customers flock to its 31 superstores to buy hunting, fishing, and outdoor gear. A typical Cabela's store draws 4.4 million customers a year—an average of 40,000 customers on a Saturday and 50,000–100,000 on a holiday weekend. Half of Cabela's customers drive 100 miles or more to get there, and many travel up to 350 miles. Schools even send busloads of kids.

Cabela's isn't just a store chain; it's a name with star power. According to reporters' accounts:

> When a store opened in Scottsdale, Arizona, two news helicopters hovered overhead as if covering some celebrity wedding. In other cities, customers pitched tents and camped out to be the first in the store. Some 3,500 eager customers showed up for the recent opening of a new Billings, Montana, location. Most arrived three or more hours early, and it took nearly 20 minutes for the crowd, pouring constantly through the door shoulder-to-shoulder, to get in the store. Cars with license plates from all over the state were parked in the lot. One Canadian couple even drove down from Alberta just to see the store.

In fact, Cabela's stores have become tourist destinations. Its store in Michigan is the state's largest tourist attraction, drawing more than 6 million people a year. The Minnesota store trails only the Mall of America in the number of annual visitors. And the Cabela's in Sidney, Nebraska, a town of only 6,200 people located 150 miles from the nearest major city (Denver), attracts 1.2 million visitors a year, making it Nebraska's second-largest tourist attraction behind the Omaha Zoo. In all, Cabela's captures an astonishing 37 cents of every retail dollar spent by hunters.

Just what is it that attracts these hordes of otherwise reluctant shoppers to Cabela's remote stores? Part of the answer lies in all the stuff the stores sell. Cabela's huge superstores (as much as 1.5 times larger than a typical Walmart supercenter) house a vast assortment of quality merchandise at reasonable prices. Cabela's competes on price with discounters but carries a selection that's six to ten times deeper—more than 200,000 kinds of items for hunting, fishing, boating, camping, and archery.

Cabela's also sells lines of branded clothing and gifts that appeal to customers' wives and children, making it a popular stop for the whole family. And to top things off, Cabela's offers first-class service. It staffs its departments with a generous supply of employees, all of whom must pass a 100-question test on the products they sell. For customers who stop by during hunting trips, Cabela's even offers the use of outdoor kennels and corrals to house their hunting dogs or horses while they shop. Hunters with rifles are welcomed.

But deep product assortments and good service don't explain the huge crowds that show up at Cabela's. The retailer's real magic lies in the *experiences* it creates for those who visit. "This is more than a place to go get fishhooks," says a Cabela's spokesperson. "The Cabelas"—Nebraska brothers Dick and Jim—"wanted to create a sense of wonder." Mission accomplished! In each of its stores, Cabela's has created what amounts to a natural history theme park for outdoor enthusiasts.

Take the store near Fort Worth, Texas, for example. Dominating the center of the store is Conservation Mountain, a two-story mountain replica with two waterfalls and cascading streams. The mountain is divided into four ecosystems and five bioregions: a Texas prairie, an Alaskan habitat, an Arctic icecap, an American woodland, and an Alpine mountaintop. Each bioregion is populated by lifelike, museum-quality taxidermy animals in action poses—everything from prairie dogs, deer, elk, and caribou to brown bears, polar bears, musk oxen, and mountain goats.

Elsewhere in the store, Cabela's has created an African diorama, complete with African animals depicted in their natural habitats—an

Store atmosphere: Cabela's real magic lies in the experiences it creates for those who visit. "This is more than a place to go get fishhooks . . . we wanted to create a sense of wonder."

Continued on next page

elephant, a rhinoceros, a Cape buffalo, and lions downing their prey. Other store attractions include a trophy deer museum and three walk-through aquariums, where visitors can view trophy-quality freshwater fish and learn to identify them. Getting hungry? Drop by the Mesquite Grill café for an elk, ostrich, or wild boar sandwich—no Big Macs here! The nearby General Store offers old-fashioned candy and snacks.

Cabela's spares no expense in developing this sportsman's paradise. A stuffed polar bear can cost up to $10,000. The Fort Worth store presents 800 such animals, right down to a Texas rattlesnake. Cabela's even created a new executive post—the taxidermy purchasing specialist—a person who seeks out stuffed animals and mounts them in authentic scenes—two grizzly bears locked in battle, a leopard leaping for a monkey—even the droppings are real. "The muscle tone of the animal, the eyes, the posture—everything must be just right," says the executive. The taxidermy collection at Cabela's Fort Worth store is twice as large as the one at the Fort Worth Museum of Science and History. Cabela's shoppers typically spend an hour or more touring the wildlife displays before they start shopping.

So, if you scratch a little deeper, you will find that far from breaking the rules, Cabela's is doing all the right things. It's creating total experiences that delight the senses as well as the wallets of carefully targeted customers. Put it all together and you've got a powerful magnet for outdoorsmen and their families. Just ask one of the millions of anything-but-reluctant Cabela's customers:

> Mike and Jolene Lande brought their four-year-old son, Isaiah, to the Billings, Montana, grand opening just to browse. Jolene says she's been to six other Cabela's stores; it's a family tradition to stop at them while on road trips. "It's just awesome in there," says Mike.
>
> "I'll do just about anything to avoid shopping," says John Brown, a small-business owner in Cheyenne, Wyoming. In 35 years of marriage, his wife says she's persuaded him to go shopping only twice. Yet one day last month he invited her to drive 100 miles with him for a day of shopping at Cabela's. "I'm like a kid in a candy store here," he said, dropping a new tackle box into his cart.
>
> The trick is appealing to the family member who is usually the most reluctant to shop—Dad. One recent morning, Lara Miller was trying to round up her husband and three kids, as their morning trip to Cabela's stretched into the afternoon. Mrs. Miller—normally the only family member who likes to shop—now was the one most ready to leave. "We haven't had breakfast yet," she moaned. Her husband, Darren Miller, a farmer in Jerome, Idaho, said, "I love this place."

Sources: Extracts, quotes, and other information from "Cabela's Has Lived up to Its Hype," *McClatchy-Tribune Business News,* March 31, 2010; Zach Benoit, "New Cabela's Packs Them In," *McClatchy-Tribune Business News*, May 15, 2009; Heather Landy, "Plenty in Store," *McClatchy-Tribune Business News*, May 22, 2005, p. 1; Kevin Helliker, "Hunter Gatherer: Rare Retailer Scores by Targeting Men Who Hate to Shop," *Wall Street Journal*, December 17, 2002, p. A1; Bud Kennedy, "Bud Kennedy Column," *Fort Worth Star-Telegram*, May 26, 2005, p. 1; "Bargain Hunting," *Fortune*, November 24, 2008, p. 16; Jan Falstad, "Outdoor Retailer Adds New Dynamic to Local Marketplace," *McClatchy-Tribune Business News*, May 10, 2009; and information from www.cabelas.com, accessed October 2010.

Today's successful retailers carefully orchestrate virtually every aspect of the consumer store experience. The next time you step into a retail store—whether it sells consumer electronics, hardware, or high fashion—stop and carefully consider your surroundings. Think about the store's layout and displays. Listen to the background sounds. Smell the smells. Chances are good that everything in the store, from the layout and lighting to the music and even the smells, has been carefully orchestrated to help shape the customer's shopping experience—and open their wallets. At a Sony Style store, for instance, the environment is designed to encourage touch, from the silk wallpaper to the smooth maple wood cabinets, to the etched-glass countertops. Products are displayed like museum pieces and are set up to be touched and tried.

Perhaps the hottest store environment frontier these days is scent—that's right, the way the store smells. Most large retailers are developing "signature scents" that you smell only in their stores:[17]

> Luxury shirtmaker Thomas Pink pipes the smell of clean, pressed shirts into its stores—its signature "line-dried linen" scent. Bloomingdale's uses different essences in different departments: the soft scent of baby powder in the baby store, coconut in the swimsuit area, lilacs in intimate apparel, and sugar cookies and evergreen scent during the holiday season. At a Sony Style store, the subtle fragrance of vanilla and mandarin orange—designed exclusively for Sony—wafts down on shoppers, relaxing them and helping them believe that this is a very nice place to be. Such scents can increase customer "dwell times" and, in turn, buying. Says the founder of ScentAir, a company that produces such scents, "Developing a signature fragrance is much like [developing] a message in print or radio: What do you want to communicate to consumers and how often?"

Such "experiential retailing" confirms that retail stores are much more than simply assortments of goods. They are environments to be experienced by the people who shop in them. Store atmospheres offer a powerful tool by which retailers can differentiate their stores from those of competitors.

In fact, retail establishments sometimes become small communities in themselves—places where people get together. These places include coffee shops and cafés, shopping malls, bookstores, children's play spaces, superstores, and urban greenmarkets. For example, today's bookstores have become part bookstore, part library, part living room, and part coffeehouse. On an early evening at your local Barnes & Noble, for example, you'll likely find backpack-toting high school students doing homework with friends in the coffee bar. Nearby, retirees sit in cushy chairs thumbing through travel or gardening books while parents read aloud to their children. Barnes & Noble sells more than just books; it sells comfort, relaxation, and community.

Price Decision

A retailer's price policy must fit its target market and positioning, product and service assortment, the competition, and economic factors. All retailers would like to charge high markups and achieve high volume, but the two seldom go together. Most retailers seek *either* high markups on lower volume (most specialty stores) *or* low markups on higher volume (mass merchandisers and discount stores).

Thus, 110-year-old Bergdorf Goodman caters to the upper crust by selling apparel, shoes, and jewelry created by designers such as Chanel, Prada, and Hermes. ◉ The upmarket retailer pampers its customers with services such as a personal shopper and in-store showings of the upcoming season's trends with cocktails and hors d'oeuvres. By contrast, T.J. Maxx sells brand-name clothing at discount prices aimed at the Middle Americans. Stocking new products each week, the discounter provides a treasure hunt for bargain shoppers.

◉ A retailer's price policy must fit its targeting and positioning. Bergdorf Goodman caters to the upper crust with prices to match.

Retailers must also decide on the extent to which they will use sales and other price promotions. Some retailers use no price promotions at all, competing instead on product and service quality rather than on price. For example, it's difficult to imagine Bergdorf Goodman holding a two-for-the-price-of-one sale on Chanel handbags, even in a down economy. Other retailers—such as Walmart, Costco, and Family Dollar—practice *everyday low pricing (EDLP)*, charging constant, everyday low prices with few sales or discounts.

Still other retailers practice "*high-low*" *pricing*—charging higher prices on an everyday basis, coupled with frequent sales and other price promotions to increase store traffic, create a low-price image, or attract customers who will buy other goods at full prices. The recent economic downturn caused a rash of high-low pricing, as retailers poured on price cuts and promotions to coax bargain-hunting customers into their stores. Which pricing strategy is best depends on the retailer's overall marketing strategy, the pricing approaches of its competitors, and the economic environment.

Promotion Decision

Retailers use any or all of the five promotion tools—advertising, personal selling, sales promotion, public relations (PR), and direct marketing—to reach consumers. They advertise in newspapers and magazines and on the radio, television, and the Internet. Advertising may be supported by newspaper inserts and catalogs. Store salespeople greet customers, meet their needs, and build relationships. Sales promotions may include in-store demonstrations, displays, sales, and loyalty programs. PR activities, such as store openings, special events, newsletters and blogs, store magazines, and public service activities, are always available to retailers. Most retailers have also created Web sites, offering customers information and other features and selling merchandise directly.

Place Decision

Retailers often point to three critical factors in retailing success: *location*, *location*, and *location*! It's very important that retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning. For example, Apple locates its stores in high-end malls and trendy shopping districts—such as the "Magnificent Mile" on Chicago's Michigan Avenue or Fifth Avenue in Manhattan—not low-rent strip malls on the edge of town. By contrast, Trader Joe's places its stores in low-rent, out-of-the-way locations to keep costs down and support its "cheap gourmet" positioning. Small retailers may have to settle for whatever locations they can find or afford. Large retailers, however, usually employ specialists who use advanced methods to select store locations.

Most stores today cluster together to increase their customer pulling power and give consumers the convenience of one-stop shopping. *Central business districts* were the main form of retail cluster until the 1950s. Every large city and town had a central business district with department stores, specialty stores, banks, and movie theaters. When people began to move to the suburbs, however, these central business districts, with their traffic, parking, and crime problems, began to lose business. In recent years, many cities have joined with merchants to revive downtown shopping areas, generally with only mixed success.

Shopping center
A group of retail businesses built on a site that is planned, developed, owned, and managed as a unit.

A **shopping center** is a group of retail businesses built on a site that is planned, developed, owned, and managed as a unit. A *regional shopping center*, or *regional shopping mall*, the largest and most dramatic shopping center, has from 50 to more than 100 stores, including 2 or more full-line department stores. It is like a covered mini downtown and attracts customers from a wide area. A *community shopping center* contains between 15 and 50 retail stores. It normally contains a branch of a department store or variety store, a supermarket, specialty stores, professional offices, and sometimes a bank. Most shopping centers are *neighborhood shopping centers* or *strip malls* that generally contain between 5 and 15 stores. They are close and convenient for consumers. They usually contain a supermarket, perhaps a discount store, and several service stores—dry cleaner, drugstore, video-rental store, hardware store, local restaurant, or other stores.[18]

With more than 100,000 shopping centers in the United States, many experts suggest that the country is now "overmalled." During the 1990s, shopping center space grew at about twice the rate of population growth. However, more recently, several factors have caused hard times for the nation's shopping malls. First, consumer spending cutbacks following the recession have forced many retailers—small and large—out of business, increasing mall vacancy rates. Second, shopping centers face increased competition—everything from the rapid growth of online shopping to ever-growing sales by megaretailers such as Walmart and Costco. As a result, increased numbers of traditional shopping centers are going under.

Shopping centers: The current trend is toward large "power centers" on the one hand and smaller "lifestyle centers" on the other—or a hybrid version of the two called a lifestyle-power center. In all, today's centers are more about "creating places to be rather than just places to buy."

Although some traditional shopping centers are dying, other types of centers are still being constructed. The current trend is toward the so-called power centers. *Power centers* are huge unenclosed shopping centers consisting of a long strip of retail stores, including large, freestanding anchors such as Walmart, Home Depot, Costco, Best Buy, Michaels, PetSmart, and OfficeMax. Each store has its own entrance with parking directly in front for shoppers who wish to visit only one store. Power centers have increased rapidly over the past few years and challenge traditional indoor malls.

In contrast, *lifestyle centers* are smaller, open-air malls with upscale stores, convenient locations, and nonretail activities, such as a playground, skating rink, hotel, dining establishments, and a movie theater. They are usually located near affluent residential neighborhoods and cater to the retail needs of consumers in their areas. "Think of lifestyle centers as part Main Street and part Fifth Avenue," comments an industry observer. In fact, the original power center and lifestyle center concepts are now morphing into hybrid lifestyle-power centers. "The idea is to combine the hominess and community of an old-time village square with the cachet of fashionable urban stores; the smell and feel of a neighborhood park with the brute convenience of a strip center." In all, today's centers are more about "creating places to be rather than just places to buy."[19]

Retailing Trends and Developments

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. For example, the industry suffers from chronic overcapacity, resulting in fierce competition for customer dollars, especially in tough economic times. Consumer demographics, lifestyles, and spending patterns are changing rapidly, as are retailing technologies. To be successful, retailers need to choose target segments carefully and position themselves strongly. They need to take the following retailing developments into account as they plan and execute their competitive strategies.

A Slowed Economy and Tighter Consumer Spending

Following many years of good economic times for retailers, the recent recession turned many retailers' fortunes from boom to bust. According to one observer:[20]

> It was great to be in retailing during the past 15 years. Inflated home values, freely available credit, and low interest rates fueled unprecedented levels of consumer spending. Retailers responded by aggressively adding new stores, launching new concepts, building an online presence, and expanding internationally. While the U.S. economy grew 5 percent annually from 1996 to 2006, . . . the retail sector grew at more than double that rate—an eye-popping 12 percent. Revenues rose sharply, profits ballooned, and share prices soared. But that's all gone now. [Since the recent recession,] same-store sales . . . have dropped by double digits for many chains, store closures have accelerated, store openings are slowed, and shareholder-value destruction has been massive.

Some retailers actually benefit from a down economy. For example, as consumers cut back and look for ways to spend less on what they buy, big discounters such as Walmart scoop up new business from bargain-hungry shoppers. Similarly, lower-priced fast-food chains, such as McDonald's, have taken business from their pricier eat-out competitors.

For most retailers, however, a sluggish economy means tough times. Several large and familiar retailers have recently declared bankruptcy or closed their doors completely—including household names such as Linens 'n Things, Circuit City, KB Toys, and Sharper Image, to name a few. Other retailers, from Macy's and Home Depot to Starbucks, have laid off employees, cut their costs, and offered deep price discounts and promotions aimed at luring cash-strapped customers back into their stores.

Beyond costcutting and price promotions, many retailers have also added new value pitches to their positioning. For example, Home Depot replaced its older "You can do it. We can help." theme with a thriftier one: "More saving. More doing." Similarly, Whole Foods Market kicked up the promotion of its 365 Everyday Value private-label brand with ads sporting headlines such as "Sticker shock, but in a good way" and "No wallets were harmed in the buying of our 365 Everyday Value products." And following significant declines in same-store sales caused by the recent recession, Target, for the first time in its history, introduced TV ads featuring price messages. "Our [tagline] is 'Expect more. Pay less.'" a Target marketer said. "We're putting more emphasis on the pay less promise."[21]

When reacting to economic difficulties, retailers must be careful that their short-run actions don't damage their long-run images and positions. Drastic price discounting is "a sign of panic," says a retail strategist. "Anyone can sell product by dropping their prices, but it does not breed loyalty."[22] Instead of relying on costcutting and price reductions, retailers should focus on building greater customer value within their long-term store positioning strategies. For example, although it might make sense in the short run to move toward the "pay less" part of Target's positioning, in the long run, Target cannot afford to abandon the quality and sharp

New value pitches from retailers: Even upscale Whole Foods Market has promoted its private-label brand, 365 Everyday Value, with headlines such as "Sticker shock, but in a good way."

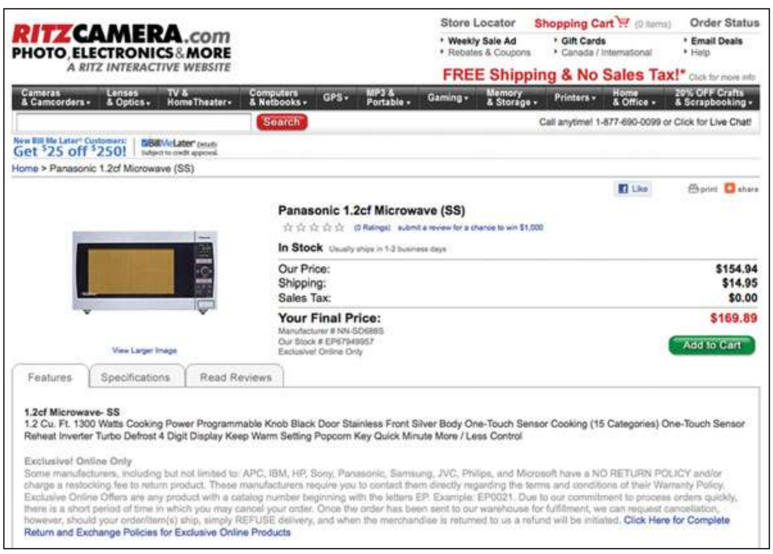
design that differentiate it from Walmart and other discounters. As the economy recovers, Target will likely reassert its "Target-ness" by moving back toward the "expect more" side of its value equation.[23]

New Retail Forms, Shortening Retail Life Cycles, and Retail Convergence

New retail forms continue to emerge to meet new situations and consumer needs, but the life cycle of new retail forms is getting shorter. Department stores took about 100 years to reach the mature stage of the life cycle; more recent forms, such as warehouse stores, reached maturity in about 10 years. In such an environment, seemingly solid retail positions can crumble quickly. Of the top 10 discount retailers in 1962 (the year that Walmart and Kmart began), not one exists today. Even the most successful retailers can't sit back with a winning formula. To remain successful, they must keep adapting.

Wheel-of-retailing concept
A concept that states that new types of retailers usually begin as low-margin, low-price, low-status operations but later evolve into higher-priced, higher-service operations, eventually becoming like the conventional retailers they replaced.

Many retailing innovations are partially explained by the **wheel-of-retailing concept**. According to this concept, many new types of retailing forms begin as low-margin, low-price, and low-status operations. They challenge established retailers that have become "fat" by letting their costs and margins increase. The new retailers' success leads them to upgrade their facilities and offer more services. In turn, their costs increase, forcing them to increase their prices. Eventually, the new retailers become like the conventional retailers they replaced. The cycle begins again when still newer types of retailers evolve with lower costs and prices. The wheel-of-retailing concept seems to explain the initial success and later troubles of department stores, supermarkets, and discount stores and the recent success of off-price retailers.



Retail convergence: Microwave ovens at RitzCamera.com? You bet.

Although new retail forms are always emerging, today's forms appear to be converging. Increasingly, different types of retailers now sell the same products at the same prices to the same consumers. For example, you can buy brand-name home appliances at department stores, discount stores, home improvement stores, off-price retailers, electronics superstores, and a slew of Web sites that all compete for the same customers. So if you can't find the microwave oven you want at Sears, step across the street and find one for a better price at Lowe's or Best Buy—or just order one online from Amazon.com or even RitzCamera.com. This merging of consumers, products, prices, and retailers is called *retail convergence*. Such convergence means greater competition for retailers and greater difficulty in differentiating the product assortments of different types of retailers.

The Rise of Megaretailers

The rise of huge mass merchandisers and specialty superstores, the formation of vertical marketing systems, and a rash of retail mergers and acquisitions have created a core of superpower megaretailers. Through their superior information systems and buying power, these giant retailers can offer better merchandise selections, good service, and strong price savings to consumers. As a result, they grow even larger by squeezing out their smaller, weaker competitors.

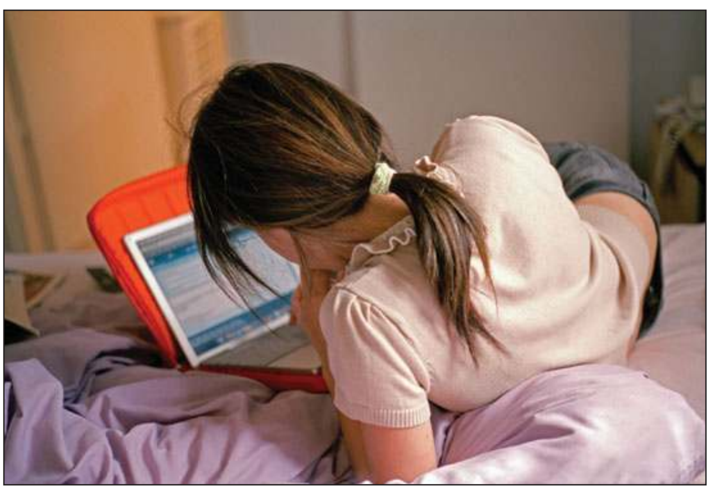
The megaretailers have shifted the balance of power between retailers and producers. A small handful of retailers now control access to enormous numbers of consumers, giving them the upper hand in their dealings with manufacturers. For example, you may never have heard of specialty coatings and sealants manufacturer RPM International, but you've probably used one or more of its many familiar do-it-yourself brands—such as Rust-Oleum paints, Plastic Wood and Dap fillers, Mohawk and Watco finishes, and Testors hobby cements and paints—all of which you can buy at your local Home Depot store. Home Depot is a very important customer to RPM, accounting for a significant share of its consumer sales. However, Home Depot's sales of $66 billion are close to 20 times RPM's sales of $3.4 billion. As a result, the giant retailer can, and often does, use this power to wring concessions from RPM and thousands of other smaller suppliers.[24]

Growth of Nonstore Retailing

Most of us still make most of our purchases the old-fashioned way: We go to the store, find what we want, wait patiently in line to plunk down our cash or credit card, and bring home the goods. However, consumers now have a broad array of nonstore alternatives, including mail order, phone, and online shopping. Americans are increasingly avoiding the hassles and crowds at malls by doing more of their shopping by phone or computer. As we'll discuss in Chapter 17, direct and online marketing are currently the fastest-growing forms of marketing.

Today, thanks to advanced technologies, easier-to-use and enticing Web sites, improved online service, and the increasing sophistication of search technologies, online retailing is thriving. In fact, although it currently accounts for less than 4 percent of total U.S. retail sales, online buying is growing at a much brisker pace than retail buying as a whole. Despite a flagging economy, or perhaps because of it, last year's U.S. online retail sales reached an estimated $134 billion.[25]

Retailer online sites also influence a large amount of in-store buying. Here are some surprising statistics: 80 percent of shoppers research products online before going to a store to make a purchase; 62 percent say that they spend at least 30 minutes online every week to help them decide whether and what to buy.[26] So it's no longer a matter of customers deciding to shop in the store *or* shop online. Increasingly, customers are merging store and online outlets into a single shopping process. ● In fact, the Internet has spawned a whole new breed of shopper and way of shopping:[27]



● **The Internet has spawned a whole new breed of shopper—people who just can't buy anything unless they first look it up online and get the lowdown.**

> Many people just can't buy anything unless they first look it up online and get the lowdown. In a recent survey, 78 percent of shoppers said that ads no longer have enough information. So many buyers search online for virtually everything. Window shoppers have become "Windows shoppers." A whopping 92 percent said they had more confidence in information they sought online than anything coming from a salesclerk or other source. As a result, shoppers are devoting time and energy to ferreting out detailed information before they buy. Whether it's cars, homes, PCs, or medical care, nearly four in five shoppers say they gather information on their own from the Web before buying. "Do-it-yourself doctors" (that is, info-seeking patients) show up at their doctor's office with the Web-derived diagnosis in hand and a list of the medicines they need prescribed. Customers appear at the car dealership with the wholesale price and the model already picked out. Now this trend is spreading down the product chain. In the survey, 24 percent of shoppers said they are even doing online research before buying shampoo. And they have questions: How does this shampoo work on different hair types, thicknesses, and colors? Are the bottles recyclable? Has the product been tested on animals?

All types of retailers now employ direct and online channels. The online sales of large brick-and-mortar retailers, such as Walmart, Sears, Staples, and Best Buy, are increasing rapidly. Several large online-only retailers—Amazon.com, Zappos.com, online travel companies such as Travelocity.com and Expedia.com, and others—are now making it big on the Web. At the other extreme, hordes of niche marketers are using the Internet to reach new markets and expand their sales.

Still, much of the anticipated growth in online sales will go to multichannel retailers—the click-and-brick marketers who can successfully merge the virtual and physical worlds.

In a recent ranking of the top 500 online retail sites, 58 percent were multichannel retailers.[28] For example, Macy's beefed-up Web site complements its more than 800 Macy's stores around the country. Although many Macy's customers make purchases online, the site offers a range of features designed to build loyalty to Macy's and pull customers into stores. Like many retailers, Macy's has discovered that its best customers shop both online and offline. "When our customers shop [both] online and in stores they spend 20 percent more in stores than the average in-store shopper, and 60 percent more online than the average online shopper at Macys.com," says the chairman of Macys.com. But the Web site aims to do more than just sell products online. "We see Macys.com as far more than a selling site. We see it as the online hub of the Macy's brand."[29]

Growing Importance of Retail Technology

Retail technologies have become critically important as competitive tools. Progressive retailers are using advanced IT and software systems to produce better forecasts, control inventory costs, interact electronically with suppliers, send information between stores, and even sell to customers within stores. They have adopted sophisticated systems for checkout scanning, RFID inventory tracking, merchandise handling, information sharing, and interacting with customers.

Perhaps the most startling advances in retail technology concern the ways in which retailers are connecting with consumers. Today's customers have gotten used to the speed and convenience of buying online and to the control that the Internet gives them over the buying process. The Web lets consumers shop when they like and where they like, with instant access to gobs of information about competing products and prices. No real-world store can do all that.

Increasingly, however, retailers are attempting to meet these new consumer expectations by bringing Web-style technologies into their stores. Many retailers now routinely use technologies ranging from touch-screen kiosks, mobile handheld shopping assistants, and customer-loyalty cards to self-scanning checkout systems and in-store access to store inventory databases. Consider the supermarket chain Stop & Shop:[30]

> To engage shoppers as they roll their carts down the aisles, speed up checkout, and generally improve the shopping experience, Stop & Shop provides customers with mobile handheld Scan It scanners. Shoppers retrieve a scanner by swiping their loyalty card and then use it to scan and bag products as they shop. The device keeps a running total of purchases. As customers wend their way through the aisles, based on each customer's shopping history and current selections, the Scan It scanners call out sale prices and issue electronic coupons. Customers can even use the scanners to place deli orders while they shop elsewhere in the store. When customers arrive at the deli counter, their order is waiting for them. When done, shoppers pay and go quickly at a dedicated self-checkout lane. The Scan It scanners now process about 10 percent of all Stop & Shop store sales. The new technology not only makes shopping faster and more convenient for customers but also reduces store operating costs.

Retail technology: Stop & Shop uses technology to make shopping faster and more convenient for its customers.

Green Retailing

Today's retailers are increasingly adopting environmentally sustainable practices. They are greening up their stores and operations, promoting more environmentally responsible products, launching programs to help customers be more responsible, and working with channel partners to reduce their environmental impact.

McDonald's Golden Arches are now going green. Its new eco-friendly restaurants are designed from the bottom up with a whole new eco-attitude.

At the most basic level, most large retailers are making their stores more environmentally friendly through sustainable building design, construction, and operations. For example, new Safeway stores employ extensive recycling and compost programs, wind energy and solar panels for power, and regionally sourced sustainable building materials. Similarly, McDonald's Golden Arches are now going green. Its new eco-friendly restaurants are designed from the bottom up with a whole new eco-attitude.[31]

> A new "green" McDonald's in Cary, North Carolina, is built and furnished mostly with reclaimed building materials. The parking lot is made with permeable pavers, which absorb and clean storm water and filter it back into the water table. Exterior and interior lighting uses energy-efficient LEDs, which consume as much as 78 percent less energy and last 10 to 20 times longer than traditional lighting. The restaurant is landscaped with hearty, drought-resistant native plants, which require less water. Then, what little water they do need comes from rainwater channeled from the roof and condensation from the super–high-efficiency HVAC system. Inside the restaurant, solartube skylights bring in natural light and reduce energy use. A sophisticated lighting system adjusts indoor illumination based on light entering through the skylights. The dining room is filled with materials made from recycled content (recycled floor tiles, for example, and counters made from recycled glass and concrete), and paints and cleaning chemicals were chosen for their low environmental impact. Other green features include high-efficiency kitchen equipment and water-saving, low-flow faucets and toilets. The restaurant even offers electric vehicle charging stations for customers.

Retailers are also greening up their product assortments. For example, JCPenney's Simply Green designation identifies store-brand products that are organic, renewable, or made from recycled content. "Every product with the Simply Green designation helps the environment heal, little by little," says the company. Similarly, Safeway offers its own Bright Green line of home care products, featuring cleaning and laundry soaps made with biodegradable and naturally derived ingredients, energy-efficient light bulbs, and paper products made from 100 percent recycled content. Such products can both boost sales and lift the retailer's image as a responsible company. "More than ever, our consumers are aware of the choices and behaviors that affect the world around us," says a Safeway marketing executive. "We want to simplify 'choosing green.'"[32]

Many retailers have also launched programs that help consumers make more environmentally responsible decisions. Staples' EcoEasy program helps customers identify green products sold in its stores and makes it easy to recycle printer cartridges, cell phones, computers, and other office technology products. Staples recycles some 30 million printer cartridges and four million pounds of electronic waste each year. Similarly, Best Buy's "Greener Together" program helps customers select more energy-efficient new products and recycle old ones.[33]

Finally, many large retailers are joining forces with suppliers and distributors to create more sustainable products, packaging, and distribution systems. For example, Amazon.com works closely with the producers of many of the products it sells to reduce and simplify their packaging. And beyond its own substantial sustainability initiatives, Walmart wields its huge buying power to urge its army of suppliers to improve their environmental impact and practices. The retailer has even developed a worldwide Sustainable Product Index, by which it rates suppliers. It plans to translate the index into a simple rating for consumers to help them make more sustainable buying choices.

Green retailing yields both top and bottom line benefits. Sustainable practices lift a retailer's top line by attracting consumers looking to support environmentally friendly sellers and products. They also help the bottom line by reducing costs. For example, Amazon.com's reduced-packaging efforts increase customer convenience and eliminate "wrap rage" while at the same time save packaging costs. And an earth-friendly McDonald's restaurant not only appeals to customers and helps save the planet but costs less to operate. "Green retailing has recently become another legitimate differentiator in the [retail] brand equation, and it creates significant quick-hit ROI opportunities, as well," concludes a retail analyst.[34]

Global Expansion of Major Retailers

Retailers with unique formats and strong brand positioning are increasingly moving into other countries. Many are expanding internationally to escape mature and saturated home markets. Over the years, some giant U.S. retailers, such as McDonald's, have become globally prominent as a result of their marketing prowess. Others, such as Walmart, are rapidly establishing a global presence. Walmart, which now operates more than 4,000 stores in 14 countries abroad, sees exciting global potential. Its international division alone last year racked up sales of more than $100 billion, over 50 percent more than rival Target's *total* sales of $63 billion.[35]

However, most U.S retailers are still significantly behind Europe and Asia when it comes to global expansion. Ten of the world's top 20 retailers are U.S. companies; only four of these retailers have established stores outside North America (Walmart, Home Depot, Sears, and Costco). Of the 10 non-U.S. retailers in the world's top 20, seven have stores in at least 10 countries. Among foreign retailers that have gone global are France's Carrefour and Auchan chains, Germany's Metro and Aldi chains, and Britain's Tesco.[36]

French discount retailer Carrefour, the world's second-largest retailer after Walmart, has embarked on an aggressive mission to extend its role as a leading international retailer:

> The Carrefour Group has an interest in more than 15,400 stores in over 30 countries in Europe, Asia, and the Americas, including over 1,000 hypermarkets (supercenters). It leads Europe in supermarkets and the world in hypermarkets. Carrefour is outpacing Walmart in several emerging markets, including South America, China, and the Pacific Rim. It's the leading retailer in Brazil and Argentina, where it operates more than 1,000 stores, compared to Walmart's 477 units in those two countries. Carrefour is the largest foreign retailer in China, where it operates more than 443 stores versus Walmart's 279. In short, although Walmart has more than three times Carrefour's overall sales, Carrefour is forging ahead of Walmart in most markets outside North America. The only question: Can the French retailer hold its lead? Although no one retailer can safely claim to be in the same league with Walmart as an overall retail presence, Carrefour stands a better chance than most to hold its own in global retailing.[37]

Wholesaling
All the activities involved in selling goods and services to those buying for resale or business use.

Wholesaler
A firm engaged *primarily* in wholesaling activities.

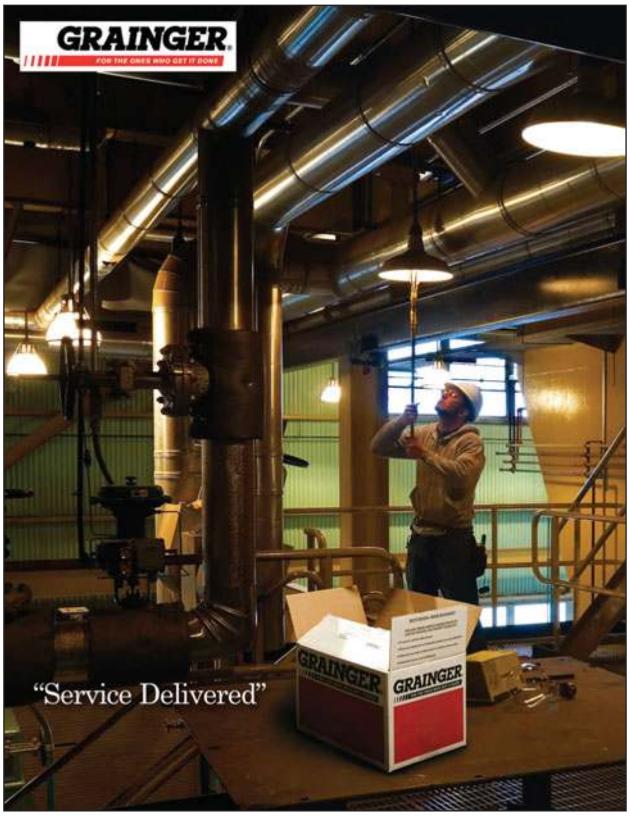
Author Comment Whereas retailers primarily sell goods and services directly to final consumers for personal use, wholesalers sell primarily to those buying for resale or business use. Because wholesalers operate behind the scenes, they are largely unknown to final consumers. But they are very important to their business customers.

Wholesaling (pp 394–400)

Wholesaling includes all the activities involved in selling goods and services to those buying for resale or business use. Firms engaged *primarily* in wholesaling activities are called **wholesalers**.

Wholesalers buy mostly from producers and sell mostly to retailers, industrial consumers, and other wholesalers. As a result, many of the nation's largest and most important wholesalers are largely unknown to final consumers. For example, you may never have heard of Grainger, even though it's very well known and much valued by its more than 1.8 million business and institutional customers across North America, India, China, and Panama.[38]

> Grainger may be the biggest market leader you've never heard of. It's a $6 billion business that offers 1 million maintenance, repair, and operating (MRO) products to more than 2 million customers. Through its branch network, service centers, sales



Wholesaling: Many of the nation's largest and most important wholesalers—like Grainger—are largely unknown to final consumers. But they are very well known and much valued by the business customers they serve.

reps, catalog, and Web site, Grainger links customers with the supplies they need to keep their facilities running smoothly—everything from light bulbs, cleaners, and display cases to nuts and bolts, motors, valves, power tools, test equipment, and safety supplies. Grainger's 600 branches, 22 strategically located distribution centers, more than 18,000 employees, and innovative Web sites handle more than 115,000 transactions a day, and 98 percent of orders ship within 24 hours. Grainger's customers include organizations ranging from factories, garages, and grocers to schools and military bases. Customers include notables such as Abbott Laboratories, General Motors, Campbell's Soup, American Airlines, and the U.S. Postal Service.

Grainger operates on a simple value proposition: to make it easier and less costly for customers to find and buy MRO supplies. It starts by acting as a one-stop shop for products needed to maintain facilities. On a broader level, it builds lasting relationships with customers by helping them find *solutions* to their overall MRO problems. Acting as consultants, Grainger sales reps help buyers with everything from improving their supply chain management to reducing inventories and streamlining warehousing operations. So, how come you've never heard of Grainger? Perhaps it's because the company operates in the not-so-glamorous world of MRO supplies, which are important to every business but not so important to consumers. More likely, it's because Grainger is a wholesaler. And like most wholesalers, it operates behind the scenes, selling mostly to other businesses.

Why are wholesalers important to sellers? For example, why would a producer use wholesalers rather than selling directly to retailers or consumers? Simply put, wholesalers add value by performing one or more of the following channel functions:

- *Selling and promoting:* Wholesalers' sales forces help manufacturers reach many small customers at a low cost. The wholesaler has more contacts and is often more trusted by the buyer than the distant manufacturer.
- *Buying and assortment building:* Wholesalers can select items and build assortments needed by their customers, thereby saving much work.
- *Bulk breaking:* Wholesalers save their customers money by buying in carload lots and breaking bulk (breaking large lots into small quantities).
- *Warehousing:* Wholesalers hold inventories, thereby reducing the inventory costs and risks of suppliers and customers.
- *Transportation:* Wholesalers can provide quicker delivery to buyers because they are closer to buyers than are producers.
- *Financing:* Wholesalers finance their customers by giving credit, and they finance their suppliers by ordering early and paying bills on time.
- *Risk bearing:* Wholesalers absorb risk by taking title and bearing the cost of theft, damage, spoilage, and obsolescence.
- *Market information:* Wholesalers give information to suppliers and customers about competitors, new products, and price developments.
- *Management services and advice:* Wholesalers often help retailers train their salesclerks, improve store layouts and displays, and set up accounting and inventory control systems.

Types of Wholesalers

Merchant wholesaler
An independently owned wholesale business that takes title to the merchandise it handles.

Broker
A wholesaler who does not take title to goods and whose function is to bring buyers and sellers together and assist in negotiation.

Agent
A wholesaler who represents buyers or sellers on a relatively permanent basis, performs only a few functions, and does not take title to goods.

Manufacturers' sales branches and offices
Wholesaling by sellers or buyers themselves rather than through independent wholesalers.

Wholesalers fall into three major groups (see **Table 13.3**): *merchant wholesalers*, *agents and brokers*, and *manufacturers' sales branches and offices*. **Merchant wholesalers** are the largest single group of wholesalers, accounting for roughly 50 percent of all wholesaling. Merchant wholesalers include two broad types: full-service wholesalers and limited-service wholesalers. *Full-service wholesalers* provide a full set of services, whereas the various *limited-service wholesalers* offer fewer services to their suppliers and customers. The different types of limited-service wholesalers perform varied specialized functions in the distribution channel.

Brokers and *agents* differ from merchant wholesalers in two ways: They do not take title to goods, and they perform only a few functions. Like merchant wholesalers, they generally specialize by product line or customer type. A **broker** brings buyers and sellers together and assists in negotiation. **Agents** represent buyers or sellers on a more permanent basis. *Manufacturers' agents* (also called *manufacturers' representatives*) are the most common type of agent wholesaler. The third major type of wholesaling is that done in **manufacturers' sales branches and offices** by sellers or buyers themselves rather than through independent wholesalers.

Wholesaler Marketing Decisions

Wholesalers now face growing competitive pressures, more-demanding customers, new technologies, and more direct-buying programs on the part of large industrial, institutional, and retail buyers. As a result, they have taken a fresh look at their marketing strategies. As with retailers, their marketing decisions include choices of segmentation and targeting, differentiation and positioning, and the marketing mix—product and service assortments, price, promotion, and distribution (see **Figure 13.2**).

Segmentation, Targeting, Differentiation, and Positioning Decisions

Like retailers, wholesalers must segment and define their target markets and differentiate and position themselves effectively—they cannot serve everyone. They can choose a target group by size of customer (large retailers only), type of customer (convenience stores only), the need for service (customers who need credit), or other factors. Within the target group, they can identify the more profitable customers, design stronger offers, and build better relationships with them. They can propose automatic reordering systems, establish management-training and advisory systems, or even sponsor a voluntary chain. They can discourage less-profitable customers by requiring larger orders or adding service charges to smaller ones.

Marketing Mix Decisions

Like retailers, wholesalers must decide on product and service assortments, prices, promotion, and place. Wholesalers add customer value though the *products and services* they offer. They are often under great pressure to carry a full line and stock enough for immediate delivery. But this practice can damage profits. Wholesalers today are cutting down on the number of lines they carry, choosing to carry only the more-profitable ones. They are also rethinking which services count most in building strong customer relationships and which should be dropped or paid for by the customer. The key is to find the mix of services most valued by their target customers.

Price is also an important wholesaler decision. Wholesalers usually mark up the cost of goods by a standard percentage—say, 20 percent. Expenses may run 17 percent of the gross margin, leaving a profit margin of 3 percent. In grocery wholesaling, the average profit margin is often less than 2 percent. Wholesalers are trying new pricing approaches. The recent economic downturn put heavy pressure on wholesalers to cut their costs and prices. As their retail and industrial customers face sales and margin declines, these customers turn to wholesalers looking for lower prices. Wholesalers may cut their margins on some lines to keep important customers. They may ask suppliers for special price breaks, when they can turn them into an increase in the supplier's sales.

TABLE | 13.3 Major Types of Wholesalers

Type	Description
Merchant wholesalers	Independently owned businesses that take title to all merchandise handled. There are *full-service wholesalers* and *limited-service wholesalers*.
Full-service wholesalers	Provide a full line of services: carrying stock, maintaining a sales force, offering credit, making deliveries, and providing management assistance. Full-service wholesalers include wholesale merchants and industrial distributors.
Wholesale merchants	Sell primarily to retailers and provides a full range of services. *General merchandise wholesalers* carry several merchandise lines, whereas *general line wholesalers* carry one or two lines in great depth. *Specialty wholesalers* specialize in carrying only part of a line.
Industrial distributors	Sell to manufacturers rather than to retailers. Provide several services, such as carrying stock, offering credit, and providing delivery. May carry a broad range of merchandise, a general line, or a specialty line.
Limited-service wholesalers	Offer fewer services than full-service wholesalers. Limited-service wholesalers are of several types:
Cash-and-carry wholesalers	Carry a limited line of fast-moving goods and sell to small retailers for cash. Normally do not deliver.
Truck wholesalers (or truck jobbers)	Perform primarily a selling and delivery function. Carry a limited line of semiperishable merchandise (such as milk, bread, snack foods), which is sold for cash as deliveries are made to supermarkets, small groceries, hospitals, restaurants, factory cafeterias, and hotels.
Drop shippers	Do not carry inventory or handle the product. On receiving an order, drop shippers select a manufacturer, who then ships the merchandise directly to the customer. Drop shippers operate in bulk industries, such as coal, lumber, and heavy equipment.
Rack jobbers	Serve grocery and drug retailers, mostly in nonfood items. Rack jobbers send delivery trucks to stores, where the delivery people set up toys, paperbacks, hardware items, health and beauty aids, or other items. Rack jobbers price the goods, keep them fresh, set up point-of-purchase displays, and keep inventory records.
Producers' cooperatives	Farmer-owned members that assemble farm produce for sale in local markets. Producers' cooperatives often attempt to improve product quality and promote a co-op brand name, such as Sun-Maid raisins, Sunkist oranges, or Diamond walnuts.
Mail-order or Web wholesalers	Send catalogs to or maintain Web sites for retail, industrial, and institutional customers featuring jewelry, cosmetics, specialty foods, and other small items. Its primary customers are businesses in small outlying areas.
Brokers and agents	Do not take title to goods. Main function is to facilitate buying and selling, for which they earn a commission on the selling price. Generally specialize by product line or customer type.
Brokers	Bring buyers and sellers together and assist in negotiation. Brokers are paid by the party who hired the broker and do not carry inventory, get involved in financing, or assume risk. Examples include food brokers, real estate brokers, insurance brokers, and security brokers.
Agents	Represent either buyers or sellers on a more permanent basis than brokers do. There are four types:
Manufacturers' agents	Represent two or more manufacturers of complementary lines. Often used in such lines as apparel, furniture, and electrical goods. A manufacturer's agent is hired by small manufacturers who cannot afford their own field sales forces and by large manufacturers who use agents to open new territories or cover territories that cannot support full-time salespeople.
Selling agents	Have contractual authority to sell a manufacturer's entire output. The selling agent serves as a sales department and has significant influence over prices, terms, and conditions of sale. Found in product areas such as textiles, industrial machinery and equipment, coal and coke, chemicals, and metals.
Purchasing agents	Generally have a long-term relationship with buyers and make purchases for them, often receiving, inspecting, warehousing, and shipping the merchandise to buyers. Purchasing agents help clients obtain the best goods and prices available.

(continued)

TABLE | 13.3 Major Types of Wholesalers—*continued*

Type	Description
Commission merchants	Take physical possession of products and negotiate sales. Used most often in agricultural marketing by farmers who do not want to sell their own output. Takes a truckload of commodities to a central market, sells it for the best price, deducts a commission and expenses, and remits the balance to the producers.
Manufacturers' and retailers' branches and offices	Wholesaling operations conducted by sellers or buyers themselves rather than through independent wholesalers. Separate branches and offices can be dedicated to either sales or purchasing.
Sales branches and offices	Set up by manufacturers to improve inventory control, selling, and promotion. *Sales branches* carry inventory and are found in industries such as lumber and automotive equipment and parts. *Sales offices* do not carry inventory and are most prominent in the dry goods and notions industries.
Purchasing officers	Perform a role similar to that of brokers or agents but are part of the buyer's organization. Many retailers set up purchasing offices in major market centers, such as New York and Chicago.

Although *promotion* can be critical to wholesaler success, most wholesalers are not promotion minded. They use largely scattered and unplanned trade advertising, sales promotion, personal selling, and PR. Many are behind the times in personal selling; they still see selling as a single salesperson talking to a single customer instead of as a team effort to sell, build, and service major accounts. Wholesalers also need to adopt some of the nonpersonal promotion techniques used by retailers. They need to develop an overall promotion strategy and make greater use of supplier promotion materials and programs.

Finally, *distribution* (location) is important. Wholesalers must choose their locations, facilities, and Web locations carefully. There was a time when wholesalers could locate in low-rent, low-tax areas and invest little money in their buildings, equipment, and systems. Today, however, as technology zooms forward, such behavior results in outdated systems for material handling, order processing, and delivery.

Instead, today's large and progressive wholesalers have reacted to rising costs by investing in automated warehouses and IT systems. Orders are fed from the retailer's information system directly into the wholesaler's, and the items are picked up by mechanical devices and automatically taken to a shipping platform where they are assembled. Most

FIGURE | 13.2
Wholesaler Marketing Strategy

Why does this figure look so much like Figure 13.1? You guessed it. Like retailers, wholesalers must develop customer-driven marketing strategies and mixes that create value for customers and capture value in return. For example, Grainger helps its business customers "save time and money by providing them with the right products to keep their facilities up and running."

large wholesalers use technology to carry out accounting, billing, inventory control, and forecasting. Modern wholesalers are adapting their services to the needs of target customers and finding cost-reducing methods of doing business. They are also transacting more business online. For example, e-commerce is Grainger's fastest growing sales channel. Online purchasing now accounts for 24 percent of the wholesaler's U.S. sales.[39]

Trends in Wholesaling

Today's wholesalers face considerable challenges. The industry remains vulnerable to one of its most enduring trends—the need for ever-greater efficiency. Recent economic conditions have led to demands for even lower prices and the winnowing out of suppliers who are not adding value based on cost and quality. Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers. They recognize that their only reason for existence comes from adding value by increasing the efficiency and effectiveness of the entire marketing channel.

As with other types of marketers, the goal is to build value-adding customer relationships. For example, Grainger succeeds by making life easier and more efficient for the commercial and institutional buyers and sellers it serves:

> Beyond making it easier for customers to find the products they need, Grainger also helps them streamline their acquisition processes. For most companies, acquiring MRO supplies is a very costly process. In fact, 40 percent of the cost of MRO supplies stems from the purchase process, including finding a supplier, negotiating the best deal, placing the order, receiving the order, and paying the invoice. Grainger constantly seeks ways to reduce the costs associated with MRO supplies acquisition, both internally and externally. One company found that working with Grainger cut MRO requisition time by more than 60 percent, and lead times went from days to hours. Its supply chain dropped from 12,000 suppliers to 560—significantly reducing expenses. Similarly, a large timber and paper-products company has come to appreciate Grainger's selection and streamlined ordering process. It orders two-thirds of its supplies from Grainger's Web site at an annual acquisition cost of only $300,000. By comparison, for the remainder of its needs, this company deals with more than 1,300 small distributors at an acquisition cost of $2.4 million each year—eight times the cost of dealing with Grainger for over half the volume. The company is now looking for ways to buy all of its MRO supplies from Grainger. As one Grainger branch manager puts it, "If we don't save [customers] time and money every time they come [to us], they won't come back."[40]

McKesson, a diversified healthcare services provider and the nation's leading wholesaler of pharmaceuticals, health and beauty care, home health care, and medical supply and equipment products, provides another example of progressive, value-adding wholesaling. To survive, especially in a harsh economic environment, McKesson has to be more cost effective than manufacturers' sales branches. Thus, the company has built efficient automated warehouses, established direct computer links with drug manufacturers, and created extensive online supply management and accounts receivable systems for customers. It offers retail pharmacists a wide range of online resources, including supply-management assistance, catalog searches, real-time order tracking, and an account-management system. It has also created solutions such as automated pharmaceutical-dispensing machines that assist pharmacists by reducing costs and improving accuracy. ◉ Retailers can even use the McKesson systems to maintain prescription histories and medical profiles on their customers.

◉ Pharmaceuticals wholesaler McKesson helps its retail pharmacist customers be more efficient by offering a wide range of online resources. Retail pharmacists can even use the McKesson system to maintain medical profiles on their customers.

McKesson's medical-surgical supply and equipment customers receive a rich assortment of online solutions and supply management tools, including an online order management system and real-time information on products and pricing, inventory availability, and order status. According to McKesson, it adds value in the channel by providing "supply, information, and health care management products and services designed to reduce costs and improve quality across healthcare."[41]

The distinction between large retailers and large wholesalers continues to blur. Many retailers now operate formats such as wholesale clubs and supercenters that perform many wholesale functions. In return, many large wholesalers are setting up their own retailing operations. For example, until recently, SuperValu was classified as a food wholesaler, with a majority of its business derived from supplying grocery products to independent grocery retailers. However, over the past decade, SuperValu has started or acquired several retail food chains of its own—including Albertsons, Jewel-Osco, Save-A-Lot, Cub Foods, Acme, and others—to become the nation's third-largest food retailer (behind Walmart and Kroger). Thus, even though it remains the country's largest food wholesaler, SuperValu is now classified as a retailer because 75 percent of its $44 billion in sales come from retailing.[42]

Wholesalers will continue to increase the services they provide to retailers—retail pricing, cooperative advertising, marketing and management information reports, accounting services, online transactions, and others. Both the recently sluggish economy and the demand for increased services have put the squeeze on wholesaler profits. Wholesalers who do not find efficient ways to deliver value to their customers will soon drop by the wayside. However, the increased use of computerized, automated, and Web-based systems will help wholesalers contain the costs of ordering, shipping, and inventory holding, thus boosting their productivity.

Finally, facing slow growth in their domestic markets and such developments as the North American Free Trade Agreement (NAFTA), many large wholesalers are now going global. For example, McKesson now derives almost 8 percent of its revenues from Canadian and other international operations. Its Information Solutions group operates widely throughout North America, the United Kingdom, and other European countries.[43]

REVIEWING Objectives AND KEY Terms

Retailing and wholesaling consist of many organizations bringing goods and services from the point of production to the point of use. In this chapter, we examined the nature and importance of retailing, the major types of retailers, the decisions retailers make, and the future of retailing. We then examined these same topics for wholesalers.

Objective 1 Explain the role of retailers in the distribution channel and describe the major types of retailers. (pp 374–382)

Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, nonbusiness use. Retail stores come in all shapes and sizes, and new retail types keep emerging. Store retailers can be classified by the *amount of service* they provide (self-service, limited service, or full service), *product line sold* (specialty stores, department stores, supermarkets, convenience stores, superstores, and service businesses), and *relative prices* (discount stores and off-price retailers). Today, many retailers are banding together in corporate and contractual *retail organizations* (corporate chains, voluntary chains, retailer cooperatives, and franchise organizations).

Objective 2 Describe the major retailer marketing decisions. (pp 382–388)

Retailers are always searching for new marketing strategies to attract and hold customers. They face major marketing decisions about segmentation and targeting, store differentiation and positioning, and the retail marketing mix.

Retailers must first segment and define their target markets and then decide how they will differentiate and position themselves in these markets. Those that try to offer "something for everyone" end up satisfying no market well. In contrast, successful retailers define their target markets well and position themselves strongly.

Guided by strong targeting and positioning, retailers must decide on a retail marketing mix—product and services assortment, price, promotion, and place. Retail stores are much more than simply an assortment of goods. Beyond the products and services they offer, today's successful retailers carefully orchestrate virtually every aspect of the consumer store experience. A retailer's price policy must fit its target market and positioning, products and services assortment, and competition. Retailers use any or all of the five promotion tools—advertising, personal selling, sales promotion, PR, and direct marketing—to reach consumers. Finally, it's very important that retailers select locations that are accessible to the target market in areas that are consistent with the retailer's positioning.

Objective 3 Discuss the major trends and developments in retailing. (pp 389–394)

Retailers operate in a harsh and fast-changing environment, which offers threats as well as opportunities. Following years of good economic times for retailers, the recent recession turned many retailers' fortunes from boom to bust. New retail forms continue to emerge. At the same time, however, different types of retailers are increasingly serving similar customers with the same products and prices (retail convergence), making differentiation more difficult.

Other trends in retailing include the rise of megaretailers, the rapid growth of nonstore retailing, the growing importance of retail technology, a surge in green retailing, and the global expansion of major retailers.

Objective 4 **Explain the major types of wholesalers and their marketing decisions.** **(pp 394–400)**

Wholesaling includes all the activities involved in selling goods or services to those who are buying for the purpose of resale or business use. Wholesalers fall into three groups. First, *merchant wholesalers* take possession of the goods. They include *full-service wholesalers* (wholesale merchants and industrial distributors) and *limited-service wholesalers* (cash-and-carry wholesalers, truck wholesalers, drop shippers, rack jobbers, producers' cooperatives, and mail-order wholesalers). Second, *brokers* and *agents* do not take possession of the goods but are paid a commission for aiding buying and selling. Finally, *manufacturers' sales branches and offices* are wholesaling operations conducted by nonwholesalers to bypass the wholesalers.

Like retailers, wholesalers must target carefully and position themselves strongly. And, like retailers, wholesalers must decide on product and service assortments, prices, promotion, and place. Progressive wholesalers constantly watch for better ways to meet the changing needs of their suppliers and target customers. They recognize that, in the long run, their only reason for existence comes from adding value by increasing the efficiency and effectiveness of the entire marketing channel. As with other types of marketers, the goal is to build value-adding customer relationships.

KEY Terms

OBJECTIVE 1

Retailing (p 374)
Retailer (p 374)
Shopper marketing (p 374)
Specialty store (p 376)
Department store (p 376)
Supermarket (p 376)
Convenience store (p 377)
Superstore (p 378)
Category killer (p 378)
Service retailer (p 378)
Discount store (p 378)
Off-price retailer (p 378)
Independent off-price retailer (p 378)
Factory outlet (p 378)
Warehouse club (p 380)
Chain stores (p 381)
Franchise (p 381)

OBJECTIVE 2

Shopping center (p 388)

OBJECTIVE 3

Wheel-of-retailing concept (p 390)

OBJECTIVE 4

Wholesaling (p 394)
Wholesaler (p 394)
Merchant wholesaler (p 396)
Broker (p 396)
Agent (p 396)
Manufacturers' sales branches and offices (p 396)

PEARSON mymarketinglab

- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **Retailing/Wholesaling**.

DISCUSSING & APPLYING THE Concepts

Discussing the Concepts

1. Discuss how retailers and wholesalers add value to the marketing system. Explain why marketers are embracing the concept of *shopper marketing*. (AACSB: Communication; Reflective Thinking)
2. Discuss the factors used to classify retail establishments and list the types within each classification. (AASCB: Communication)
3. List and briefly discuss the trends impacting the future of retailing. (AACSB: Communication)
4. Suppose you are a manufacturer's agent for three lines of complementary women's apparel. Discuss the types of marketing mix decisions you will make. (AACSB: Communication; Reflective Thinking)
5. Discuss the different organizational approaches for retailers and provide an example of each. (AACSB: Communication; Reflective Thinking)
6. What is retail convergence? Has it helped or harmed small retailers? (AACSB: Communication; Reflective Thinking)

Applying the Concepts

1. The atmosphere in a retail store is carefully crafted to influence shoppers. Select a retailer with both a physical store and an online store. Describe the elements of the physical store's atmosphere, such as coloring, lighting, music, scents, and décor. What image is the store's atmosphere projecting? Is the atmosphere appropriate given the store's merchandise assortment and target market? Which elements of the physical store's atmosphere are in the online store's atmosphere? Does the retailer integrate the physical store's atmosphere with its online presence? Explain. (AACSB: Communication; Use of IT; Reflective Thinking)
2. Shop for a product of your choice on Amazon.com. Do consumer reviews influence your perception of a product or brand offered? Consumers participating in the Amazon Vine

Program submit many of the product reviews found on Amazon.com. Learn about this program and discuss whether or not a review from a consumer in this program is more useful than a review from a consumer not in this program. (AACSB: Communication; Use of IT; Reflective Thinking)

3. Determining the target market and the positioning for a retail store are very important marketing decisions. In a small group, develop the concept for a new retail store. Who is the target market for your store? How is your store positioned? What retail atmospherics will enhance this positioning effectively to attract and satisfy your target market? (AACSB: Communication; Reflective Thinking)

FOCUS ON Technology

"Mirror, mirror on the wall, who's the fairest of them all?" This is no fairy tale feature anymore and can be found online or at a retailer near you. EZFace, a virtual mirror using augmented reality, is changing the cosmetics aisle in some Walmart stores. A shopper stands in front of the magical mirror, swipes the bar code of the cosmetic she is interested in, and virtually tries it on without opening the package. No more regrets about buying the wrong shade of lipstick! Self-service retailers are interested in this technology because it can reduce damaged inventory from consumers opening a package and then not buying it. This is just one of the interactive digital technologies that retailers are experimenting with; keep an eye out for many more!

1. Visit www.ezface.com or www.ray-ban.com/usa/science/virtual-mirror and use the virtual mirror to try on makeup or sunglasses. Does this technology help you select an appropriate product for your face? (AACSB: Communication; Use of IT; Reflective Thinking)

2. Find other examples of how retailers are using digital technologies, such as digital signage and mobile technologies, to better serve customers. (AACSB: Communication; Use of IT; Reflective Thinking)

FOCUS ON Ethics

In the United States, paying for purchases with a credit card is old news. That's not so in much of Asia. The United States leads the world in credit cards per capita—2.01, which is much higher than many Asian countries, such as China with 0.15 cards per capita or India with 0.02. But that's changing dramatically. Between 2004 and 2009, Asian card transactions grew 158 percent, approaching one-fourth of the global transaction volume. Asian governments are encouraging this growth because it stimulates the economy and brings in more tax revenue. Retailers embrace it because consumers spend more when using cards as compared to cash. This trend is not without critics, however, given the historical aversion to debt exhibited by Asians.

1. What are the ethical implications of encouraging electronic payment methods compared to cash payments in Asian countries? (AACSB: Communication; Ethical Reasoning; Reflective Thinking)

2. Most stores have eliminated layaway options for customers and encourage credit purchases. Should retailers encourage customers to rely heavily on credit? (AACSB: Communication; Reflective Thinking)

MARKETING & THE Economy

Walmart

In tough economic times, low-price leaders generally do well. They keep existing customers and gain new ones who are trading down. That was the case for Walmart throughout most of the recent economic downturn. But more recently, Walmart has seen a changing dynamic. By late 2010, traffic and same-store sales at U.S. stores had been declining for a year. This is puzzling, especially given that the retailer had been aggressively discounting its already low prices during that period. There are two possible reasons for Walmart's declining numbers. First, Walmart's core shoppers have lower average incomes than typical Target shoppers and have felt little relief from the economic recovery. Already at the ends of their budgets, they are not ready to increase spending, even when something enticing goes on sale. Second, better-off customers who traded down to Walmart are now feeling more relaxed about spending. But rather than spending at Walmart, those customers are returning to other stores they frequented prior to the economic downturn. With a bleak forecast for job growth, Walmart's revenue trend is not expected to change anytime soon.

1. Are there any other options for Walmart other than waiting out the recovering economy?

2. What needs to change in the external environment before Walmart sees stronger growth?

MARKETING BY THE Numbers

Retailers need merchandise to make sales. In fact, a retailer's inventory is its biggest asset. The cost of goods sold greatly impacts a retailer's gross profit margin. Moreover, not stocking enough merchandise can result in lost sales, whereas carrying too much inventory increases costs and lowers margins. Both circumstances reduce profits. One measure of a reseller's inventory management effectiveness is its *stockturn rate* (also called *inventory turnover rate* for manufacturers). The key to success in retailing is realizing a large volume of sales on as little inventory as possible while maintaining enough stock to meet customer demands. Refer to Appendix 2 to answer the following questions.

1. Calculate the gross margin percentage of a retailer with annual sales of $5,000,000 and cost of goods sold of $2,000,000. (AACSB: Analytical Reasoning)
2. Determine the stockturn rate if this retailer carries an average inventory at a cost of $750,000, with a cost of goods sold of $2,000,000. If this company's stockturn rate was 3.5 last year, is the stockturn rate you just calculated better or worse? Explain. (AACSB: Communication; Analytical Reasoning)

VIDEO Case

Zappos.com

These days, online retailers are a dime a dozen. But in less than 10 years, Zappos.com has become a billion dollar company. How did it hit the dot-com jackpot? By providing some of the best service available anywhere. Zappos customers are showered with such perks as free shipping both ways, surprise upgrades to overnight service, a 365-day return policy, and a call center that is always open. Customers are also delighted by employees who are empowered to spontaneously hand out rewards based on unique needs. It's no surprise that Zappos.com has an almost cult-like following of repeat customers.

After viewing the video featuring Zappos.com, answer the following questions.

1. How has Zappos.com differentiated itself from other retailers through each element of the retail marketing mix?
2. What is the relationship between how Zappos.com treats its employees and how it treats its customers?
3. Why did Amazon.com buy Zappos.com, given that it already sells what Zappos.com sells?

COMPANY Case

Tesco Fresh & Easy: Another British Invasion

One beautiful autumn morning in Ontario, California, a long line of people waited anxiously with shopping carts. The occasion? The grand opening of a Fresh & Easy Neighborhood Market. This was big news for a community starving for decent retail outlets. "The residents have been screaming for this," said Mayor Paul Leon. "For years residents have been asking for more choices in the south Ontario area," a growing suburb populated formerly by more cows than people.

INTRODUCING TESCO

What is Fresh & Easy? To answer that question, let's step back and look at the company behind the new Fresh & Easy grocery chain—Tesco. You may not have heard of Tesco, but it's one of the world's hottest retailers. The first Tesco opened its doors in London in 1919, selling surplus groceries. In the decades that followed, it developed into a traditional grocery store chain and one of the biggest in the United Kingdom, selling 15 percent of the country's groceries.

But in 1997, new CEO Terry Leahy performed a truly amazing feat. Under Leahy's direction, Tesco became the third largest retailer in the world, trailing only Walmart and France's Carrefour. In just 13 years, Leahy opened more than 4,000 stores, bringing Tesco's current total to over 4,800. Under Leahy's leadership, Tesco grew from selling mostly groceries to becoming a major force in general merchandise. The mega-retailer's portfolio now includes Walmart-style supercenters, full-sized supermarkets, Walgreen's-style stores, and even nonfood discount stores. With 94 million total square feet of retail space, the company employs 472,000 people. During Leahy's tenure, Tesco's UK market share doubled to 30 percent as it expanded from 6 to 14 countries, gaining a presence in the emerging economies of Asia, the Middle East, and Eastern Europe. Revenue soared to $93 billion for 2010 while profits hit $4.7 billion, figures that both grew even during the Great Recession.

With everything going its way, Leahy surprisingly announced his retirement in the summer of 2010 at the age of 55. "My work here is done," he claimed. The accolades came pouring in. "He must surely be written up as one of Britain's greatest businessmen," proclaimed analyst Darren Shirley. "The way that the Tesco brand has been developed, extended, and enhanced by geography and category has been a textbook exercise." In addition to expanding the company, Leahy was known for bringing the business of grocery and discount retailing closer to the shopper with the Tesco Clubcard, an incentive-based loyalty program.

SIZING UP THE U.S. MARKET

With Tesco's resources and momentum, it was only a matter of time before it made a move to crack the U.S. market. In 2007, Tesco made that move with a fat $2-billion commitment and a goal of 1,000 U.S. stores in the first five years. In the years leading up to Tesco's 2007 debut, the U.S. economy was still riding high. Housing developments were spreading like wildfire, and all those new homes and people needed retailers to feed them. As far as Tesco was concerned, it couldn't have picked a better time.

But Tesco also knew that it would face heavily entrenched competition. Walmart dominated the retail landscape. But other entrenched U.S. chains, such as Kroger, Safeway, and SuperValue, all had strong market shares. Then there were the countless regional chains that provided the allure of supporting local and state economies.

Tesco spent lots of time, effort, and money researching the U.S. markets and making decisions on what approach it would take. It examined 20 years worth of data. But it didn't just rely on numbers. "We went into people's houses, talked to them about food and food shopping," said Simon Uwins, Tesco's marketing director. "We went into their kitchens and poked around pantries." In this manner, Tesco videotaped and monitored every habit of American families.

Tesco's research led to some important conclusions. For starters, it chose to focus its United States rollout on California, spilling over into Arizona and Nevada. One of the biggest reasons was that Walmart actually had a minimal presence in California, a state with a GDP big enough to make it the eighth largest country in the world. Despite Walmart's dominance, the mega-retailer had opened only 22 grocery-selling supercenters in the Golden state, compared to 279 in Texas.

Big box stores become a dominant force in the United States. Aside from Walmart Supercenters, the success of retailers such as Best Buy, Bed Bath & Beyond, and Home Depot suggested that growth in just about every category was dominated by superstores. But Tesco decided that, for maximum impact, it would buck this trend and differentiate itself from existing superstore choices. Tim Mason, CEO of Fresh & Easy, discusses insights that helped Tesco reach that conclusion.

> Probably the most surprising thing to me was the number of different stores that an American family uses to shop. They shop in up to 20 different stores—many more than the equivalent [family] would in the UK. They will use different types of shops for their food, for their cleaning products, and for their personal care products. What I discovered is that you just can't get everything that you want in one place. The main retail brands in Britain have much higher levels of loyalty and genuinely do fulfill the notion of a one-stop shop. That's less of the case here. People will wait for flyers and coupons and indeed, people who have time but not money will actually take their shopping list and walk to two or three big players and then decide what to buy.

INTRODUCING FRESH & EASY

With that, Tesco decided to not even try the one-stop supercenter approach. Instead, Fresh & Easy was designed from the beginning as a smaller neighborhood style store positioned between convenience stores and full-sized supermarkets. Tesco calls this an "express" mini-supermarket. The average size of a Fresh & Easy Neighborhood Market is 15,000 square feet. Compare that to a full-sized supermarket at 50,000 to 60,000 square feet or a Walmart Supercenter that reaches up to 260,000 square feet.

With the smaller size, a Fresh & Easy clearly can't carry everything. The chain focuses on fresh, prepared, and ready-to-eat foods with a bit of an emphasis on gourmet—think bags of pomegranates, rose-gold apples, watercress, Japanese shrimp dumplings, and Indian samosas. The stores carry a big selection of store-labeled products with a good balance of premium brands. If you're thinking Trader Joe's, that's exactly the comparison that is often made.

Fresh & Easy promises "big box discounts without the big box." In another Web site headline, Tesco takes a direct shot at Whole Foods Market. "Wholesome food, not whole paycheck." With this combination of benefits, store openings often play out like the one in Ontario. Customers are greeted by a brightly painted storefront and a green logo in lowercase letters. Inside, cheerful employees in green shirts move about a bright, clean store with wide uncluttered aisles. Every food item in Fresh & Easy, even produce, has an expiration date. The stores tout another distinguishing feature—no cashiers. Instead, shoppers are met at a self-checkout aisle by an animated female avatar that guides them through the process.

Fresh & Easy is betting on another strong point of differentiation. The green logo and shirts are intentional. Fresh & Easy has positioned itself as a chain with "sustainability" in its DNA. All stores are designed with energy-efficient lighting and refrigerators. Most of the meats, vegetables, and other fresh foods arrive in reusable plastic containers rather than disposable cardboard. Some stores offer reserved parking for hybrids. And one California Fresh & Easy store has even received the coveted seal of approval from the Leadership in Energy and Environmental Design. The company's Southern California distribution center hosts the largest solar roof array in the state. And all products reach stores in hybrid electric-diesel semitrailers. Fresh & Easy even plans to roll out carbon labels, a simple calculation of the amount of greenhouse gases emitted from an item's production, distribution, use, and disposal.

NOT QUITE A HIT

This kind of venture seems like a no-brainer; one that can't fail. In fact, many predicted that Fresh & Easy would be a category killer. But initial results have given Tesco cause for concern. For starters, the first Fresh & Easy store openings coincided with the beginning of the subprime-mortgage crisis. California, Arizona, and Nevada were among the states hardest hit. As foreclosures multiplied, houses sat vacant in the very developments where Fresh & Easy stores were expected to make a big splash.

Fresh & Easy may also have missed the mark on meeting consumer needs. One observer stated harshly, "It's as if the place purports to solve all kinds of vexing marketing 'problems' while failing to address the most basic real world problem. Namely, why would anyone even want to come here to begin with?" After her initial visit to a Fresh & Easy, one Trader Joe's loyalist said, "I'm sure the food here is tasty. But we are going to have to find more useful things if we are going to shop here much." To compound this problem, initial perceptions of everyday low prices left a lot to be desired.

Tesco claims to be responsive to customer feedback. Indeed, it moved quickly to make some changes after the feedback it received from its first store openings. It hit pricing harder with reductions and increased the use of coupons, including regular coupons for $5 off a $20 shopping bill. And it put higher shelves in stores to add 1,000 new products without taking any items away.

Although Tesco asserts that it is exceeding sales targets, it also slowed its rate of store openings. Whereas it had initially planned to open 100 new stores in the first year and then increase that rate, after three years there are now just over 150 Fresh & Easy stores. Given the high sunk cost of its distribution system, Tesco needs bigger store numbers to defray that expense across more stores. Indeed, the U.S. arm of Tesco lost $260 million on $550 million in sales this year.

Many analysts now speculate as to what will happen with Fresh & Easy as the economy shows signs of improvement. Leahy predicts that by the time he steps down in March 2011, the economy will have seen a "strong recovery." But many economists and analysts aren't so optimistic about what the future holds for the grocery business. Dave McCarthy, a Citigroup managing director and former Tesco employee, provides cautionary advice for Tesco. "The sector is heading for its most difficult time in many years. Opening programs are doubling, industry like-for-likes are currently negative, and discretionary income is falling. And there's uncertainty on how Tesco will deal with the changing industry environment. It will be interesting to see if [Tesco] maintains long-term commitment to the United States if it continues to drain profits."

Questions for Discussion

1. Describe Fresh & Easy according to the different types of retailers discussed in the chapter.
2. As a retail brand, assess the Fresh & Easy retail strategy with respect to segmentation, targeting, differentiation, and positioning.
3. Evaluate Tesco's research efforts for the U.S. market. Did this research help or hurt?
4. Will Fresh & Easy succeed or fail in the long term? Support your answer.
5. What recommendations would you make to Tesco for Fresh & Easy?

Sources: Simon Zekaria, "Leahy's Work Not Yet Done," *Wall Street Journal*, June 8, 2010, accessed at www.wsj.com; Paul Sonne, "Tesco's CEO-to-Be Unfolds Map for Global Expansion," *Wall Street Journal*, June 9, 2010, p. B1; Judie Lannon, "Every Little Bit Helps: Fresh & Easy Brings 21st Century Retailing to the US," *Market Leader*, Autumn 2007, accessed at www.marketing-society.org.uk; Jeffrey Ball, "Tesco to Launch U.S. 'Green' Grocer," *Wall Street Journal*, September 24, 2009, p. B4; Matthew Boyle and Michael V. Copeland, "Tesco Reinvents the 7-Eleven," *Fortune*, November 9, 2007, p. 34; Liset Marquez, "Customers Line Up at South Ontario Fresh and Easy," *Inland Valley Daily Bulletin*, December 2, 2009, accessed at www.dailybulletin.com.