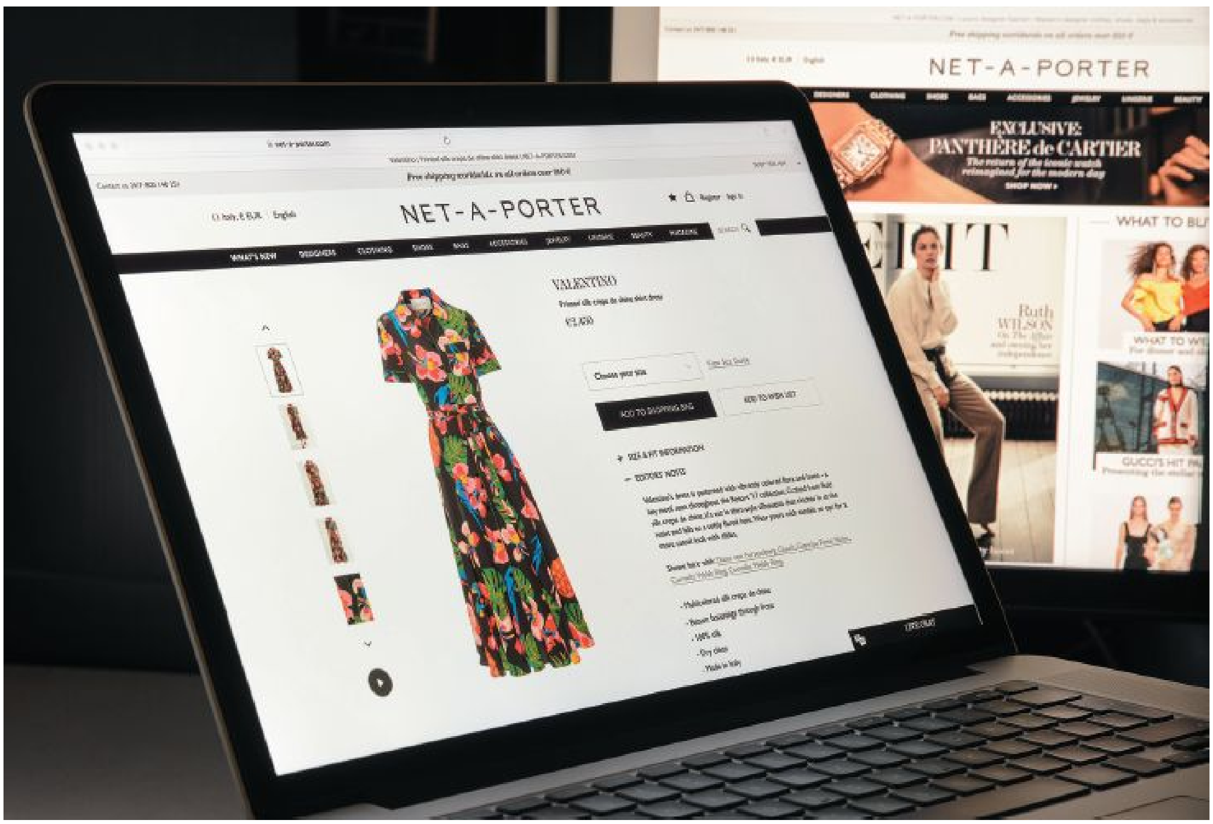
CHAPTER 16

Managing Retailing



Net-a-Porter created a luxury online shopping experience by merging editorial content and magazine-quality images to showcase products in its portfolio of 800-plus designer brands.
Source: Casimiro/Alamy Stock Photo

Learning Objectives After studying this chapter you should be able to:

16.1 Explain the key changes defining modern retailing.
16.2 Discuss the marketing decisions that retailers face.
16.3 Describe how a company manages omnichannel retailing.
16.4 Explain the key principles in building and managing private labels.
16.5 Describe the key aspects of wholesaling.

Net-a-Porter was founded in London in 2000 by fashion journalist Natalie Massenet. At a time when most luxury brands were intimidated by online retailers, Net-a-Porter set out to create a superior yet convenient shopping experience to bring luxury items to high-net-worth buyers. Since its launch, Net-a-Porter has established itself as the world's premier luxury fashion retailer, offering a portfolio of over 800 designer brands, including Gucci, Prada, Dolce & Gabbana, Chloe, Alexander McQueen, Balenciaga, Valentino, and Stella McCartney. A key to the company's success was its business model, which called for merging editorial content and retail capability to create a fashion magazine selling luxury brands. "People always say to me, 'You've really strived to redefine retail,'" shared Massenet, "but the reality is I wanted to redefine magazines. From the beginning, we were always trying to blend the two, to buy [clothes and labels] in the same way a fashion editor would choose them." Net-a-Porter aimed to display its offerings in a manner similar to the way it would look in a magazine—but to let readers buy them online. This involved producing high-quality images and videos to showcase the brands, and developing luxury packaging to recreate the luxury shopping experience online. Net-a-Porter's approach proved to be successful, and the company turned a profit four years after its launch, despite the difficult economic climate following the internet bubble burst. Several years later, in 2010, Switzerland-based luxury goods holding company Richemont acquired a majority stake in Net-a-Porter in a deal that valued the online retailer at over $500 million. In 2015, Net-a-Porter merged with Yoox, an online retailer of off-season luxury goods, to create the world's leading online luxury fashion retailer, Yoox Net-a-Porter Group.[1]

In the preceding chapter, we examined marketing intermediaries primarily in their capacity as manufacturers that want to build and manage marketing channels. In this chapter, we view these intermediaries—retailers, wholesalers, and logistical organizations—as requiring and forging their own marketing strategies in a rapidly changing world. Intermediaries also strive for marketing excellence and can reap the benefits like any other type of company. Consider the success of Net-a-Porter.

The retail market can be unforgiving. Although innovative retailers such as Zappos, Sweden's H&M, Spain's Zara and Mango, and Britain's Topshop have thrived in recent years, others, such as former U.S. stalwarts JCPenney, Kohl's, and Kmart, have struggled. The more successful companies use strategic planning, state-of-the-art technology, advanced information systems, and sophisticated marketing tools. They segment their markets, improve their market targeting and positioning, and connect with their customers through memorable experiences, relevant and timely information, and, of course, the right products and services. In this chapter, we discuss marketing excellence in retailing.

THE MODERN RETAIL ENVIRONMENT

Retailing includes all the activities involved in selling goods or services directly to final consumers for personal, nonbusiness use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing. Any organization selling to final consumers—no matter whether it is a manufacturer, a wholesaler, or a retailer—is doing retailing. It also doesn't matter *how* the goods or services are sold (in person, by mail, by telephone, by vending machine, or online) or *where* (in a store, on the street, or in a consumer's home).

The retail marketing environment is dramatically different today from what it was just a decade ago. The retail market is very dynamic, and a number of new types of competitors and competition have emerged in recent years.

- **New retail forms and combinations.** To better satisfy customers' need for convenience, a variety of new retail forms have emerged. Bookstores feature coffee shops. Gas stations include food stores. Loblaws supermarkets have fitness clubs. Grocery stores such as Whole Foods and Kroger are adding bars to their locations. Shopping malls and bus and train stations have peddlers' carts in their aisles. Retailers are also experimenting with "pop-up" stores that let them promote brands to seasonal shoppers for a few weeks in busy areas. Pop-up stores are designed to create buzz, often through interactive experiences. Google uses pop-up stores as an easy way to establish a physical presence during holiday shopping seasons. In addition to gaining a retail footprint by acquiring Whole Foods, Amazon has launched its own brick-and-mortar stores.
- **Retailer consolidation.** Through their superior information systems, logistical systems, and buying power, giant retailers such as Walmart are able to deliver good service and immense volumes of product to masses of consumers at appealing prices. They are crowding out smaller manufacturers that cannot deliver enough quantity, and they often dictate to the most powerful ones what to make, how to price and promote it, when and how to ship, and even how to improve production and management. Without these accounts, manufacturers could lose a significant portion of their sales. Because consolidated retailers have power over manufacturers, they tend to charge a variety of allowance fees for listing, stocking, and promoting new brands.
- **Growth of mobile retailing.** Consumers are fundamentally changing the way they shop, increasingly using a cell phone to text a friend or relative about a product while shopping in stores. Over 50 percent of all Google searches are done on mobile phones. In some parts of the world, m-commerce is well established. Asian consumers use their mobile phones as their main computers and benefit from a well-developed mobile infrastructure. Mobile ads are accepted by consumers and relatively inexpensive for firms. In South Korea, Tesco created virtual subway stores for commuters traveling on Seoul's underground transportation system. Interactive, lifelike store aisles with a wide range of product and brand images were superimposed on walls. Consumers could order products for home delivery by simply snapping photos with their phones.
- **Growth of omnichannel retailing.** Retailing has evolved from a purely brick-and-mortar format to a scenario in which retailers have augmented their physical locations with online stores designed to cater to consumers who prefer shopping online. In this physical + online format, brick-and-mortar stores and online stores perform the same functions, with online sales partially cannibalizing the sales in physical stores. Realizing the potential inefficiencies in managing two independent distribution channels, many retailers have moved to an omnichannel model in which physical locations complement one another rather than competing. For example, many retailers—including Best Buy, Target, and Nordstrom—are integrating their online and offline operations to offer a seamless customer experience in a way that is effective and cost-efficient for the company. For example, Home Depot enables customers to search online the available inventory at each of its stores and have the items that are not locally available shipped to the local store or to customers' homes. Customers may also return unwanted items by either shipping them back or bringing them to a nearby store.

- **Growth of fast retailing.** An important trend in fashion retailing in particular, but with broader implications as well, is the emergence of fast retailing. Here retailers develop completely different supply chain and distribution systems in order to offer consumers constantly changing product choices. Fast retailing requires thoughtful decisions in a number of areas, including new-product development, sourcing, manufacturing, inventory management, and selling practices. Consumers have been attracted to fast-fashion retailers such as H&M, Zara, Uniqlo, TopShop, and Forever 21 because of the novelty, value, and fashion sense of their offerings and have made these retailers successful.
- **Increasing role of technology.** Technology is profoundly affecting the way retailers conduct nearly every facet of their business. Nearly all now use technology to produce forecasts, control inventory costs, and order from suppliers, reducing the need to discount and run sales to clear out languishing products. Technology is also directly affecting the consumer shopping experience inside the store. Electronic shelf labeling allows retailers to change price levels instantaneously. In-store programming can run continual demonstrations or promotional messages. Retailers are experimenting with virtual shopping screens, audio/video presentations, and QR code integration. They are also developing fully integrated digital communication strategies with well-designed websites, e-mails, search strategies, and social media campaigns. Social media are especially important for retailers during the holiday season, when shoppers are seeking information and sharing successes. Amazon has opened cashier-less stores that use cameras and artificial intelligence to detect what items customers put in their carts, and charge them accordingly, without their having to go through a check-out process.
- **Decline of middle-market retailers.** The retail market today is hourglass shaped: Growth seems to be centered at the top (with luxury offerings from retailers like Tiffany and Neiman Marcus) and at the bottom (with discount pricing from retailers like Walmart and Dollar General). As discount retailers have improved their quality and image, consumers have been willing to trade down. Target offers Phillip Lim, Jason Wu, and Missoni designs, and Kmart sells an extensive line of Joe Boxer underwear and sleepwear. At the other end of the spectrum, Coach converted 40 of its nearly 300 stores to a more upscale format that offers higher-priced bags and concierge services. Opportunities are scarcer in the middle, where once-successful retailers such as JCPenney, Kohl's, Sears, CompUSA, RadioShack, and Montgomery Ward have struggled or even gone out of business. Supermarket chains like SuperValu and Safeway have found themselves caught in the middle between the affluent appeal of chains like Whole Foods and Wegmans and the discount appeal of Aldi and Walmart. Compounding problems is the plight of middle-class shoppers, who have seen their buying power shrink as a consequence of slumping housing prices and stagnating incomes.

KEY RETAILING DECISIONS

With this new retail environment as a backdrop, we now examine retailers' marketing decisions in some key areas: target market, product assortment, procurement, services, store atmosphere and experiences, pricing, incentives, and communication. We discuss private labels later in this chapter.

TARGET MARKET

Until it defines and profiles the target market, the retailer cannot make consistent decisions about product assortment, store décor, advertising messages and media, price, and service levels. Whole Foods has succeeded by offering a unique shopping experience to a customer base interested in organic and natural foods.

> **Whole Foods Market** In over 480 stores in North America and the United Kingdom, Whole Foods (acquired by Amazon in 2017) creates celebrations of food. Its markets are bright and well staffed, and food displays are colorful, bountiful, and seductive. Whole Foods is the largest U.S. organic and natural foods grocer. Whole Foods also provides lots of information about its food. If you want to know, for instance, whether the chicken in the display case lived a happy, free-roaming life, you can get a booklet and an invitation to visit the farm in Pennsylvania where it was raised. For other help, you have only to ask a knowledgeable and easy-to-find employee. A typical Whole Foods store has more than 200 employees, almost twice as many as Safeway. The company works hard to create an inviting store atmosphere, with prices scrawled in chalk, cardboard boxes and ice everywhere, and other creative display touches to make the shopper feel at home. Its approach is working, especially for consumers who view organic and artisanal food as an affordable luxury.[2]

Mistakes in choosing target markets can be costly. When historically mass market jeweler Zales decided to chase upscale customers, it replaced one-third of its merchandise, dropping inexpensive, low-quality diamond jewelry for high-margin, fashionable 14-karat gold and silver pieces and shifting its ad campaign in the process. The move was a disaster. Zales lost many of its traditional customers without winning over the new customers it hoped to attract.[3]

To better hit their targets, retailers are slicing the market into ever-finer segments and introducing new lines of stores to exploit niche markets with more relevant offerings. For example, in recent years, children's clothing retailing has become segmented into a large number of niche markets.

Gymboree launched Janie and Jack, selling apparel and gifts for babies and toddlers; Hot Topic introduced Torrid, selling trendy fashions for women who wear sizes 10 to 30; and Limited Brand's Tween Brands began to sell lower-priced fashion to tween girls through its Justice stores and to tween boys through its Brother shops.

Informative, colorful displays and knowledgeable employees provide a welcoming atmosphere for patrons of Whole Foods, the largest U.S. organic and natural foods grocer.
Source: Maurice Savage/Alamy Stock Photo

PRODUCT ASSORTMENT AND PROCUREMENT

The retailer's product assortment must match the target market's shopping expectations in both *breadth* and *depth*.[4] A restaurant can offer a narrow and shallow assortment (small lunch counters), a narrow and deep assortment (delicatessens), a broad and shallow assortment (cafeterias), or a broad and deep assortment (large restaurants).

Identifying the right product assortment can be especially challenging in fast-moving industries such as technology and fashion. At one point, Urban Outfitters ran into trouble when it strayed from its “hip but not too hip” formula, embracing new styles too quickly. In the same vein, active and casual apparel retailer Aéropostale faced head winds trying to match its product assortment to its young teens’ needs in a way that was profitable for the company. Forced into bankruptcy in 2016, Aéropostale had to streamline its product offerings and close more than two-thirds of its 800 stores in order to avoid extinction.

Developing a product-differentiation strategy is a key challenge in defining the store’s product assortment. *Destination categories* may play a particularly important role because they have the greatest impact on where households choose to shop and how they view a particular retailer. A supermarket could be known for the freshness of its produce or for the variety and deals it offers in soft drinks and snacks.[5]

After deciding on the product-assortment strategy, the retailer must establish merchandise sources, policies, and practices. In the corporate headquarters of a supermarket chain, specialist buyers (sometimes called *merchandise managers*) are responsible for developing brand assortments and listening to presentations from their suppliers’ salespeople.

Retailers are rapidly improving their skills in demand forecasting, merchandise selection, stock control, space allocation, and display. They use sophisticated software to track inventory, compute economic order quantities, order goods, and analyze dollars spent on vendors and products. Supermarket chains use scanner data to manage their merchandise mix on a store-by-store basis.

Some stores are using radio frequency identification (RFID) systems made up of “smart” tags—microchips attached to tiny radio antennas—and electronic readers to facilitate inventory control and product replenishment. The smart tags can be embedded on products or stuck on labels so that when the tag is near a reader, it transmits a unique identifying number to its computer database. Coca-Cola and Gillette have used RFID systems to monitor inventory and track goods in real time as they move from factories to supermarkets to shopping baskets.

Stores are using direct product profitability to measure a product's handling costs (receiving, moving to storage, tracking paperwork, selecting, checking, loading, and space cost) from the time it reaches the warehouse until a customer buys it in the retail store. Sometimes they find that a product's gross margin bears little relationship to the direct product profit. Some high-volume products may have such high handling costs that they are less profitable and deserve less shelf space than low-volume products—unless customers buy enough other, more profitable products to justify the loss involved in pushing the high-volume products.

Trader Joe's has differentiated itself on its innovative product assortment and procurement strategy.

> **Trader Joe's** Los Angeles-based Trader Joe's has carved out a special niche as a "gourmet food outlet/discount warehouse hybrid," selling a constantly rotating assortment of unique upscale specialty food and wine at lower-than-average prices at its 474 stores. Roughly 80 percent of what the company stocks sells under private labels (compared with only 16 percent at most supermarkets), from Belgian waffle cookies to Thai lime-and-chili cashews. For procurement, it has adopted a "less is more" philosophy. Every store carries only 2,000 to 3,000 products, compared with 55,000 at a conventional supermarket—and then only what it can buy and sell at a good price, even if that means changing stock weekly. Trader Joe's expert buyers go directly to hundreds of suppliers, not to intermediaries, and about a quarter of these suppliers are overseas. Always thinking about what customers want and engaging them in the process, the company introduces as many as 20 products a week to replace unpopular items. With thousands of vendor relationships all around the world, Trader Joe's has built a success formula that's difficult to copy. Experts praise its ability to be a storyteller and create uniquely friendly experiences. As one expert says, "It really comes down to the small formats, well-edited assortments and value pricing of unique private brand products."[6]

SERVICES

Another differentiator is unerringly reliable customer service, whether face to face, across phone lines, or via online chat. Retailers also encounter widely different consumer preferences for service levels and specific services. Specifically, they position themselves as offering one of three levels of service:

Self-service. Self-service is the cornerstone of all discount operations. Many customers are willing to carry out their own “locate–compare–select” process to save money.

Limited service. These retailers carry more shopping goods and offer services such as credit and merchandise-return privileges. Customers typically find their own goods, though they can ask for assistance.

Full service. Salespeople are ready to assist in every phase of the “locate–compare–select” process. Customers who like to be waited on prefer this type of store. The high staffing cost and many services, along with the higher proportion of specialty goods and slower-moving items, result in high-cost retailing.

Most of Trader Joe’s offerings are private labels carefully curated to provide the level and mix of benefits sought by their customers.
Source: Randy Duchaine/Alamy Stock Photo

Retailers must also decide on the *services mix* to offer customers. Such services might involve *prepurchase services* such as providing product information and enabling shoppers to try and experience products, as well as *postpurchase services* such as shipping, delivery, and installation, gift wrapping, alterations and tailoring, installation, and adjustments and returns.

fabindia
CELEBRATE INDIA

FabIndia’s classic yet contemporary nature of its products and a stress on tradition creates an emotional connection with customers. Customers enjoy shopping in its retail outlets that offer convenience, and the décor represents the rich culture of India.
Source: ©FabIndia, used with permission

FabIndia FabIndia, established in 1960 by John Bissell, is one of India’s oldest organized retail company known for its iconic handmade products and classic store decor representing the rich culture of rural India. Fabindia opened its first retail outlet in 1976, showcasing hand-crafted handloom products designed to match the urban market taste and preferences. Over the last six decades, Fabindia has grown from a handloom export company to India’s leading handmade garment and home furnishing company with more than 320 retail outlets across India, Dubai, Singapore, Italy, Malaysia and Mauritius. The feel of the stores, from inception, complement the classic designs of its fashion products. Fabindia operates three store formats —Premium Stores (4000+ sq ft) for entire range of products focusing on exclusive high-end products, Standard Stores (2000-4000 sq ft) mixed range of regular and high-end products and Concept Stores (800-1500 sq ft) with fewer SKU of fast selling products.[8] All these stores carry the warmth of Indian ethos and culture. Each corner of the stores enhances the shopping experience with a warm and welcoming effect. The store interiors and decor showcase Fabindia’s collections in an elegant way. Be it the selection of the floral wall decor, classic lamps, unique shelf designs and elegant furniture, every corner reflects Indian ethnicity and design.[9] In 2017, Fabindia launched a new category of Experience Stores (8000-10000 sq ft) that carry the full range of its products with additional features like café (Fabcafe), kids’ zone and wellness zone apart from apparel to capture the changing needs and preferences of the youth and millennials. These Experience stores offer a complete bouquet of complementary features and services to enrich the retail shopping experience. Keeping the health-conscious youth in mind, Fabcafe offers healthy and ecofriendly food. With dedicated staff at the kids’ zone to look after the children, parents can enjoy their shopping undisturbed. In the era of one click shopping, Fabindia is doing a wonderful job to keep the retail shopping experience alive and young with its classic and inviting store atmospherics.[10]

Bass Pro Shops’ Outdoor World superstores, billed as attractions as well as retail spaces, offer product demonstrations and classes in surroundings that closely mirror those encountered by fans of the outdoors, converting them into loyal customers.
Source: dbimages/Alamy Stock Photo

Bass Pro Shops Bass Pro Shops, a retailer of outdoor sports equipment, caters to hunters, campers, anglers, boaters, and outdoors fans of any type. Its Outdoor World superstores feature 200,000 square feet or more of giant aquariums, waterfalls, trout ponds, archery and rifle ranges, fly-tying demonstrations, indoor driving range and putting greens, and classes in everything from ice fishing to conservation—all free. Every department is set up to replicate the corresponding outdoor experience in support of product demonstrations and testing. During the summer, parents can bring their kids to the free in-store Family Summer Camp with a host of activities in all departments. Bass Pro Shops builds a strong connection to its loyal customers from the moment they enter the store—through a turnstile designed to highlight that “they are entering an attraction, not just a retail space”—and are greeted by the irreverent sign saying “Welcome Fishermen, Hunters, and Other Liars.” Bass Pro Shops draws more than 120 million visitors annually. The average customer drives more than 50 miles and stays for more than two hours. The Bass showroom in Missouri is the number-one tourist destination in the state.[12]

STORE ATMOSPHERE

Retailers must consider all the senses in shaping the customer's experience. Varying the tempo of music affects average time and dollars spent in the supermarket; slow music can lead to higher sales. Bloomingdale's uses different essences or scents in different departments: baby powder in the baby store, suntan lotion in the bathing suit area, lilacs in lingerie, and cinnamon and pine scent during the holiday season. Other retailers such as Victoria's Secret and Juicy Couture use their own distinctive branded perfumes, which they also sell.[7]

The growth of e-commerce has forced traditional brick-and-mortar retailers to respond. In addition to their natural advantages (such as products that shoppers can actually see, touch, and test; real-life customer service; and no delivery lag time for most purchases), brick-and-mortar stores also provide a shopping experience as a strong differentiator.

The store atmosphere should match shoppers' basic motivations. If customers are likely to be in a task-oriented and functional mind-set, then a simpler, more restrained in-store environment may be better.[11] On the other hand, some retailers of experiential products are creating in-store entertainment to attract customers who want fun and excitement. REI, seller of outdoor gear and clothing products, allows consumers to test climbing equipment on 25-foot or even 65-foot walls in the store and to try GORE-TEX raincoats under a simulated rain shower. Bass Pro Shops also offers rich customer experiences.

PRICING

Prices are a key positioning factor and must be set in relationship to the target market, product-and-service assortment mix, and competition.[13] Different formats of store retailers will have different competitive and price dynamics.

Discount stores, for example, historically have competed much more directly with one another than with other formats, although that is changing.[14]

All retailers would like high *turns* + *earns* (high volumes and high gross margins), but the two don't usually go together. Most retailers fall into the *high-markup, lower-volume* group (fine specialty stores) or the *low-markup, higher-volume* group (mass merchandisers and discount stores). Within each of these groups are further gradations.

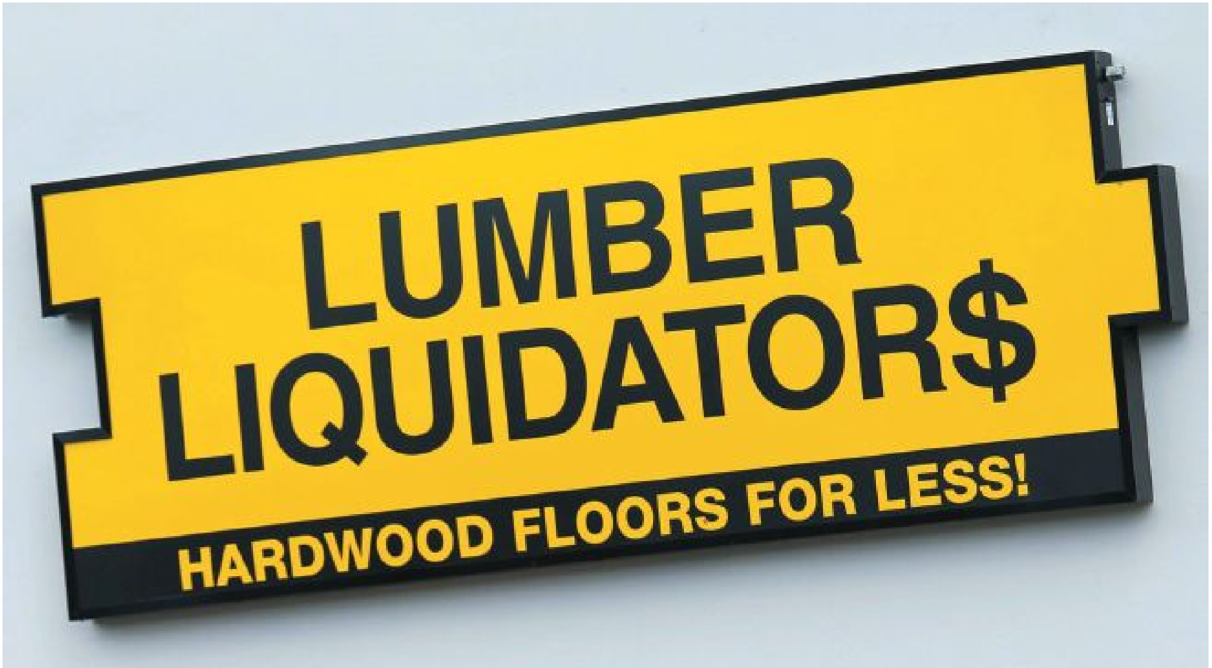
At one end of the price spectrum is by-appointment-only Bijan on Rodeo Drive in Beverly Hills, known as one of the most expensive stores in the world. The original cost of its cologne was $1,500 for six ounces, and its suits are priced at $25,000, ties at $1,200, and socks at $100.[15] At the other end of the scale, Target has skillfully combined a hip image with discount prices to offer customers a strong value proposition. It first introduced a line of products from renowned designers such as Michael Graves, Isaac Mizrahi, and Liz Lange and has continued to enlist high-profile names, such as singer Gwen Stefani, to sell hip children's clothes. Another company following the low-margin, high-volume strategy is Lumber Liquidators.

> **Lumber Liquidators** Lumber Liquidators is the largest hardwood flooring specialty retailer in the United States. It began in 1993 when Tom Sullivan, a building contractor, began purchasing excess wood that other companies didn't need and reselling it from the back of a trucking yard in Stoughton, Massachusetts. The first store opened in 1996 in West Roxbury, Massachusetts, and a second store opened the same year in Hartford, Connecticut. Over the past 20+ years, Lumber Liquidators has grown steadily, with hundreds of locations in the United States and Canada. The company found its niche market in hardwood flooring by buying excess wood directly from lumber mills at a discount and reselling it to customers at lower prices than those charged by larger home improvement retailers such as Lowe's and The Home Depot. It can sell at lower prices because it keeps operating costs down by cutting out intermediaries and locating stores in inexpensive locations. Lumber Liquidators also knows a lot about its customers, such as the fact that shoppers who request product samples have

a 30 percent likelihood of buying within a month and that most tend to renovate one room at a time, not the entire home at once.[16]

When setting prices, retailers consider a variety of factors. Some retailers put low prices on some items to serve as traffic builders (or loss leaders) or to signal their pricing policies.[17] Others plan markdowns on slower-moving merchandise to free up inventory. Shoe retailers, for example, expect to sell 50 percent of their shoes at the normal markup, 25 percent at a 40 percent markup, and the remaining 25 percent at cost. A store's average price level and discounting policies will affect its price image with consumers, but non-price-related factors such as store atmosphere and levels of service also matter.[18]

In addition to managing their prices, retailers must manage their price image, which reflects the overall perception that consumers have about the level of prices at a given retailer. For example, Walmart is often viewed as being rather inexpensive, whereas Target is typically considered to have somewhat higher prices. Because consumers are often unaware of the actual prices of the items they seek to purchase across different retailers, they often rely on retailers' price image to determine the attractiveness of a given price. In this context, when setting its prices, retailers must take into account the impact of each individual price on their price image (see "Marketing Insight: Managing the Price Image of a Retailer").



Lumber Liquidators has achieved steady growth in the hardwood flooring market by buying excess wood directly from lumber mills, keeping costs down, and passing the savings on to customers.
Source: REUTERS/Alamy Stock Photo

INCENTIVES

To make their offerings more attractive to customers, retailers often use incentives such as price discounts, volume discounts (such as buy one–get one free), bonus offerings, and coupons. These incentives, also referred to as sales promotions, aim to generate store traffic and "nudge" customers toward making a purchase.

Retailers vary in the degree to which they use incentives. Two extreme strategies stand out: everyday low pricing and high–low pricing. A retailer using **everyday low pricing (EDLP)** charges a constant low price with little or no price promotion or special sales. Constant prices eliminate week-to-week price uncertainty and the high–low pricing of promotion-oriented competitors. In **high–low pricing**, the retailer charges higher prices on an everyday basis but runs frequent promotions featuring prices temporarily lower than prices at the EDLP level.[19]

In recent years, high–low pricing has given way to EDLP at such widely different venues as Toyota Scion car dealers and upscale department stores such as Nordstrom. But the king of EDLP is surely Walmart, which practically defined the term. Except for a few sale items every month, Walmart promises everyday low prices on major brands.

Retailers like Walmart have avoided “sale pricing” in favor of EDLP. This approach has led to greater pricing stability, a stronger image of fairness and reliability, and higher retail profits. Those supermarket chains that practice everyday low pricing can be more profitable than those that practice high–low sale pricing, but only in certain circumstances, such as when the market is characterized by many “large basket” shoppers who tend to buy many items on any one trip.[20]

The most important reason why retailers adopt EDLP is that constant sales and promotions are costly and have eroded consumer confidence in everyday shelf prices. Some consumers also have less time and patience for past traditions such as watching for supermarket specials and clipping coupons. Yet promotions and sales do create excitement and draw shoppers, so EDLP does not guarantee success and is not for everyone.[21] JCPenney learned that lesson the hard way.

While shopping in brick-and-mortar stores, consumers often use their smart phones to find deals or capitalize on promotions: The redemption rate for mobile coupons (10 percent) far exceeds that for paper coupons (1 percent).[23] For retailers, research has shown that mobile promotions can get consumers to travel greater distances within a store and make more unplanned purchases.[24]

> **JCPenney** When JCPenney hired Apple’s retailing guru Ron Johnson as CEO, there was much anticipation about how he would transform the venerable department store giant. When Johnson found that the company had held 590 sales events the previous year and that almost three-quarters of its sales revenue was from merchandise marked down 50 percent or more, he decided to embark on a simplified pricing strategy. Coupons and sales were eliminated and replaced by across-the-board price decreases of 40 percent. The everyday low pricing plan turned out to be a disaster, however, and with sales and stock price plunging, Johnson was quickly shown the

door. A number of reasons have been suggested for the program's failure. Competitors like Macy's and Sears continued to offer sales and discounts, giving the perception of good deals. Penney's customers missed the coupons and weekly sales events. Everyday low prices are thought to be more effective with more functional products, but they may actually harm more image-oriented products like fashion, an important category for JCPenney. One commentator might have said it best when he stated, "At the end of the day, people don't want a fair price. They want a great deal."[22]

JCPenney's attempt to switch from a plethora of coupon and sales events to everyday low pricing proved painful when customers made it clear that they missed the weekly deals and competitors continued to offer sales and discounts.
Source: Sundry Photography/Shutterstock

Companies are trying to give their customers more control over their shopping experiences by bringing digital technologies into the store, especially via mobile apps. Consider Nordstrom. Although Nordstrom expected its app to be used remotely, many customers launch it while shopping in a store, rather than approaching a salesperson. As one executive noted, “A lot of customers like to touch and feel and try on the merchandise, but they also want the information they get online.” Nordstrom has added Wi-Fi to nearly all its stores, in part so its app will work fast.

An increasingly popular tool among brick-and-mortar retailers is **geofencing**, which involves targeting customers with a mobile promotion when they are within a defined geographic space, typically near or in a store. Consider these applications:[25]

> Neiman-Marcus is using geofencing in its stores so that its salespeople will know when their more valuable customers are on the premises and can review their purchase history to provide more personalized service.
>
> Outdoor supplier North Face uses geofences around parks and ski resorts in addition to its stores.
>
> Cosmetics brand retailer Kiehl’s uses geofencing around its free-standing stores and its kiosks within other stores. It advertises the alerts at its cash register and on social media pages and e-mail lists, and it offers customers a free lip balm for enrolling. Thousands have done so, but the company limits its texts to three a month to avoid being intrusive.

COMMUNICATIONS

Retailers use a wide range of communication tools to generate traffic and purchases. They place ads, run special sales, issue money-saving coupons, send e-mail promotions, present frequent-shopper reward programs and in-store food sampling, and put coupons on shelves or at check-out points. Retailers work with manufacturers to design point-of-sale materials that reflect both their images. They time the arrival of their e-mails and design them with attention-grabbing subject lines, animation, and personalized messages and advice.

Retailers also use interactive and social media to pass on information and create communities around their brands. They study the way consumers respond to their e-mails, not only where and how messages are opened but also which words and images led to a click.

With 15 percent of a retailer's most loyal customers accounting for as much as half of its sales, reward programs are becoming increasingly sophisticated. Consumers who choose to share personal information can receive discounts, secret or advance sales, exclusive offers, and store credits. CVS has over 9,800 retail locations and more than 90 million loyalty club members who can use in-store coupon centers and receive coupons with their sales receipts.[26]

For flagship stores in Taipei, Hong Kong, London, and Chicago, Burberry made "virtual rain" with a 360° film as part of its digital "Burberry World Live" program showcasing its rain gear. The UK's Marks & Spencer installed virtual mirrors in some of its stores so that, just as on its website, customers can see what an eye shadow or lipstick would look like for them without having to physically put it on.[27]

Buoyed by research suggesting that the majority of purchase decisions are made inside the store, firms are increasingly recognizing the importance of influencing consumers at the point of purchase. This form of influence is accomplished through *shopper marketing*, where manufacturers and retailers use stocking, displays, and promotions to affect consumers actively shopping for a product.

Where and how a product is displayed and sold can have a significant effect on sales. A strong proponent of shopper marketing, Procter & Gamble calls the store encounter the "first moment of truth" (product use and consumption are the second).[28] P&G observed the power of displays in a Walmart project designed to boost sales of premium diapers such as Pampers. As the first baby center in which infant products—previously spread across the store—were united in a single aisle, the new shelf layout encouraged parents to linger longer and spend more money, increasing Pampers sales. Another successful promotion, this one for P&G's Cover Girl cosmetics brand, tapped into a fashion trend for a "smoky eye" look by developing kits for Walmart and connecting with potential customers on Facebook with instructions, blogs, and a photo gallery.

Retailers are also using technology to influence customers as they shop. Many retailers are employing mobile phone apps or "smart" shopping carts that help customers locate items in the store, find out about sales and special offers, and pay more easily. Some companies, such as Mondelēz, use "smart shelf" technology by putting, on shelves near the check-out, sensors that can detect the age and sex of a consumer and, by virtue of advanced analytics, target them with ads and promotions for a likely snack candidate on a video screen.

MANAGING OMNICHANNEL RETAILING

Based on a target market analysis, retailers must decide which channels to employ to reach their customers. Increasingly, the answer is multiple channels. Staples sells through its traditional retail brick-and-mortar channel, its own website (staples.com), virtual malls, and thousands of links on affiliated sites.

This increased reliance on multiple channels means that channels should be designed to work together effectively. Although some experts predicted otherwise, catalogs have actually grown in an internet world as more firms have revamped them to serve as branding devices and to complement online activity. Victoria's Secret's integrated multichannel approach of retail stores, catalog, and internet has played a key role in its brand development.

> **Victoria's Secret** Victoria's Secret, purchased by Limited Brands in 1982, has become one of the most identifiable brands in retailing through skillful marketing of women's clothing, lingerie, and beauty products. After witnessing women buying expensive lingerie as fashion items from small boutiques in Europe, Limited Brands founder Leslie Wexner felt that a similar store model could work on a mass scale in the United States, even though such a store format was unlike anything the average shopper would have encountered at department stores. Wexner, however, had reason to believe U.S. women would relish the opportunity to have a European-style lingerie shopping experience with soft pink wallpaper, inviting fitting rooms, and attentive staff. "Women need underwear, but women want lingerie," he observed. Wexner's assumption proved correct: A little more than a decade after he bought the business, Victoria's Secret's average customer bought eight to 10 bras per year, compared with the national average of two. The growth of digital media and e-commerce forced Victoria's Secret to boost its online presence. During the past two decades,

the company has reduced the number of physical catalogs it mails out from 450 million to 300 million copies, allocating more and more resources to digital means of communication.[29]

While Victoria's Secret still relies on retail locations and catalogs to market its European lingerie, the growth of digital media and e-commerce has induced it to boost its online presence.
Source: Sorbis/Shutterstock

We can distinguish among *brick-and-mortar* retailers, *online* (pure-click) retailers that have ventured into e-commerce without a physical retail location, and *omnichannel* (brick-and-click) companies that have both a physical and an online presence. We discuss these three types of retailers next.

BRICK-AND-MORTAR RETAILERS

Perhaps the best-known type of brick-and-mortar retailer is the department store. Japanese department stores such as Takashimaya and Mitsukoshi attract millions of shoppers each year and feature art galleries, restaurants, cooking classes, fitness clubs, and children's playgrounds. The most common types of brick-and-mortar retailers are summarized as follows:

Department stores such as JCPenney, Macy's, and Bloomingdale's carry several product lines.

Specialty stores such as The Limited, The Body Shop, and Sephora carry a single product line (or a few related product lines).

Supermarkets such as Kroger, Albertsons, and Safeway are large, low-cost, low-margin, high-volume, self-service stores designed to meet a family's total needs for food and household products.

Convenience stores such as 7-Eleven, Circle K, and Oxxo are small stores in residential areas, often open 24/7, carrying a limited line of high-turnover convenience products.

Drugstores such as CVS Pharmacy and Walgreens carry prescription drugs, health and beauty aids, and other personal-care, small durable, and miscellaneous items.

Mass merchandisers such as Walmart and Carrefour are low-price, low-margin, high-volume stores that sell routinely purchased food and household items, plus services (laundry, shoe repair, dry cleaning, check cashing).

Category killers such as The Home Depot, Staples, and PetSmart carry a narrow but deep assortment in one category.

Extreme value or hard-discount stores such as Aldi, Lidl, Dollar General, and Family Dollar carry a very limited merchandise mix offered at heavily discounted prices.

Off-price retailers such as TJ Maxx and factory outlets offer leftover goods, overruns, and irregular merchandise sold at less than retail.

Warehouse clubs such as Costco, Sam's Club, and BJ's offer larger quantities (e.g., mega-packs) at low prices.

Automatic vending offers a variety of merchandise, including impulse goods such as soft drinks, coffee, candy, newspapers, and magazines. Vending machines are found in factories, offices, large retail stores, gasoline stations, hotels, restaurants, and many other places. With more than 5 million units, Japan has the highest per capita coverage of vending machines in the world.

The three keys to retail success are often said to be “location, location, and location.” Retailers can place their stores in any of the following locations.

Central business districts. The oldest and most heavily trafficked city areas, often known as “downtown.”

Regional shopping centers. Large suburban malls containing 40 to 200 stores, typically featuring one or two nationally known anchor stores such as Macy’s or Bloomingdale’s or a combination of big-box stores such as PETCO, Designer Shoe Warehouse, or Bed Bath & Beyond, and a number of smaller stores.

Community shopping centers. Smaller malls with one anchor store and 20 to 40 smaller stores.

Shopping strips. A cluster of stores, usually in one long building, serving a neighborhood’s needs for groceries, hardware, laundry, shoe repair, and dry cleaning.

A location within a larger store. Smaller concession spaces taken by well-known retailers such as McDonald’s, Starbucks, Nathan’s, and Dunkin’ Donuts within larger stores, airports, or schools, or “store-within-a-store” specialty retailers located within a department store, such as Gucci within Neiman Marcus.

Stand-alone stores. Some retailers, such as Kohl’s and JCPenney, are avoiding malls and shopping centers in favor of free-standing storefronts so that they are not connected directly to other retail stores.

Department store chains, oil companies, and fast-food franchisers exercise great care in selecting regions of the country in which to open outlets, then in selecting particular cities, and then particular sites. In view of the relationship between high traffic and high rents, retailers must determine the most advantageous locations for their outlets, using traffic counts, surveys of consumer shopping habits, and analysis of competitive locations.

Vending machines can be found almost anywhere in Japan, selling almost any kind of merchandise, including umbrellas.
Source: VisualJapan/Alamy Stock Photo

ONLINE RETAILERS

Online retail sales have exploded, and it is easy to see why. Online retailers can predictably provide convenient, informative, and personalized experiences for vastly different types of consumers and businesses. By saving the cost of retail floor space, staff, and inventory, they can also profitably sell low-volume products to niche markets. Consider the success of online retailers such as Gilt.

Gilt During economic downturns, many designer brands find themselves with excess inventory that they badly needed to move. Third-party “flash-sales” sites, offering deep discounts for luxury products and other goods, for only a short period of time each day, allow them to do so in a controlled manner less likely to hurt their brands. Modeled in part after France’s flash-sales pioneer Vente-Privée, Gilt was launched in November 2007 to sell fashionable women’s clothing from top designer labels for up to 60 percent off, but on a limited-time basis and only to those who joined the online site. Members were alerted of deals and their deadlines via e-mails that conveyed a sense of immediacy and urgency. Adding luxury brands such as Theory and Louis Vuitton, the firm grew to more than 8 million members. As the economy improved, however, Gilt found itself challenged by dwindling inventory, growing competition from other sites, and its own aggressive expansion strategy, which included men’s clothes, kids’ products, home products, travel packages, and food. The company responded by focusing more on its core strength in women’s fashion and developing tighter relationships with customers via personalized e-mails to announce its sales. In 2016, Gilt was acquired for $250 million by Hudson’s Bay Company, owner of luxury department store chains Hudson’s Bay, Lord & Taylor, and Saks Fifth Avenue.[30]

To drive traffic to a site, many firms employ affiliate marketing, paying online content providers to drive business to their brands’ sites. Consumers often go online to try to find lower prices, but online retailers in fact compete on multiple dimensions: product assortment, convenience, shopping experience, speed of delivery, return policies, and ability to address problems when they occur. Consumer surveys suggest that the most significant inhibitors of online shopping are the absence of pleasurable experiences, social interaction, and personal consultation with a company representative.[31] Ensuring security and privacy online remains important.

Gilt, which began by selling discounted designer clothes and other products online for limited time periods, tweaked its business model when competition tightened by focusing on its strength in women's fashions and deepening its connection with customers via personalized e-mails.
Source: 360b/Alamy Stock Photo

Although business-to-consumer websites have attracted much attention in the media, even more activity is being conducted on business-to-business sites, which are changing the supplier–customer relationship in profound ways. In the past, buyers exerted a lot of effort to gather information about worldwide suppliers. Business-to-business sites make markets more efficient, giving buyers easy access to a great deal of information from a variety of sources including *supplier websites*; *infomediaries,* third parties that add value by aggregating information about alternatives; *market makers,* third parties that link buyers and sellers; and *customer communities*, where buyers can swap stories about suppliers' products and services.

Firms such as Alibaba—the largest of the business-to-business market makers—are using business-to-business auction sites, spot exchanges, online product catalogs, barter sites, and other online resources to obtain better prices. The effect of these business-to-business mechanisms is to make prices more transparent. For undifferentiated products, price pressure will increase. For highly differentiated products, buyers will gain a better picture of the items' true value. Suppliers of superior products will be able to offset price transparency with value transparency; suppliers of undifferentiated products will need to drive down their costs in order to compete.

OMNICHANNEL RETAILING

Although many brick-and-mortar companies once hesitated to open an e-commerce channel for fear of conflict with their channel partners, most have added the internet after seeing how much business is generated online. Even Procter & Gamble, which used traditional physical channels of distribution exclusively for years, is selling some big brands such as Tide, Pampers, and Olay online via its P&G e-store, in part to be able to examine consumer shopping habits more closely. As consumers are becoming more comfortable shopping online using their computers, tablets, and mobile phones, many traditional retailers, including Landmark Group, are also rapidly adopting the omnichannel format.

> **Landmark Group** is one of the most popular and fastest growing retailers with a footprint of over 550 stores in India. Retail brands include fashion and apparel chains—Max, Lifestyle and Easybuy, grocery and supermarket chain—Spar, home retailer—Home Centre, among others. Max is a mono-brand which offers customers a one-stop shop for clothing, accessories and footwear needs for the entire family. Max has adopted an omnichannel distribution strategy to make its fashion products easily accessible across the country, including smaller cities. In addition to its 383 stores in 156 cities, Max ensures greater access with strong online presence enabling deliveries in 19,000 postal pin codes across India. Max's "Click and Collect" option allows customers to shop online and collect from the nearest store offers convenience and faster access. Max has also partnered with

Amazon and Myntra to serve a larger base of customers. Landmark introduced AI and IoT-based solutions such as Max Buddy, Self-Checkout Kiosk, and Mobile POS to create value for its customers and ensure a seamless shopping experience. Max Buddy is an in-store digital assistant which can be opened on a customer's mobile and offers personalized recommendations and fashion inputs based on customers' past purchases. It also enables customers to seamlessly look for "missing sizes" at the stores and fulfil them using its website. Features such as "self-checkout" enable customers to do contactless checkout while saving time. Max Fashion's 'voice search' for its online customers eases the shopping experience. To complement its in-store facilities, Lifestyle has introduced some unique features such as 'Fitting Room Assistance' and 'Visual Voice search' facilities for its online customers. Both the features are designed to elevate online shopping experience to the next level.[32] With its strategy to ensure Omnipresence with technology and personalized shopping experience, Landmark Group is expecting 40% of its sales from India by 2025.[33] Spar India which is the grocery and supermarket arm, has introduced Spar Genie which is an in-store digital assistant, and includes features such as a digital wallet, shopping list and offer discovery, to enable an enjoyable and easy in-store shopping experience for its customers. Each brand in the Landmark Group stable leverages its customer loyalty program – Landmark Rewards, to better understand its customers across their in-store and online behaviour and create a more personalized, omni-channel experience, in sync with the brand's product offerings.

The Landmark Group is prioritizing its digital strategy to give customers anytime/anywhere access to its products via mobile, online, and store sales, including warehouse-to-store shipping and digital payment. Digital applications such as Max Buddy and Spar Genie are enhancing the customers' shopping experience.
Source: Surya Nair / Alamy Stock Photo

In addition to combined brick-and-mortar and online retailers, omnichannel retailers include non-store retailers that have extended their reach to include online retailing in their portfolio. One example of such multichannel retailing includes direct-mail marketing, catalog marketing (Lands' End, L.L. Bean), telemarketing (1-800-FLOWERS), and infomercial direct-response marketing (HSN, QVC). Most of these companies have added e-commerce as another channel to connect with customers and generate sales.

The transition to omnichannel retailing was greatly facilitated by the COVID pandemic when many brick-and-mortar-only retailers found their sales revenues quickly evaporating as their customers became increasingly cautious of in-person shopping. Government regulations on business operations exacerbated the situation by further restricting consumers' access to retail stores. This dramatic change in the dynamics of shopping behavior forced many retailers to reevaluate their business models and embrace ecommerce as an integral aspect of their operations. While some companies such as Amazon, Walmart, and Target beefed up their internal delivery networks, many smaller size retailers relied on intermediaries such as Instacart and FreshDirect, GrubHub, DoorDash, Postmates, and UberEats to facilitate logistics and delivery.

MANAGING PRIVATE LABELS

A **private label** (also called a reseller, store, or house brand) is a proprietary brand that retailers and wholesalers develop. Benetton, The Body Shop, and Marks & Spencer carry mostly own-brand merchandise. In grocery stores in Europe and Canada, store brands account for as much as 40 percent of the items sold. In Britain, roughly half of what Sainsbury's and Tesco, the largest food chains, sell is store-label goods. Germany and Spain are also European markets with a high percentage of private-label sales.

For many manufacturers, retailers are both collaborators and competitors. According to the Private Label Manufacturers' Association, store brands now account for one of every five items sold in U.S. supermarkets, drug chains, and mass merchandisers. In one study, seven of 10 shoppers believed the private-label products they bought were as good as, if not better than, their national-brand counterparts, and virtually every household purchases private-label brands from time to time.[34] The stakes in private-label marketing are high. A one-percentage-point shift from national brands to private labels in food and beverages is estimated to add $5.5 billion in revenue for supermarket chains.[35]

Private labels are rapidly gaining ground in a way that has many manufacturers of name brands running scared. Recessions increase private-label sales, and once some consumers switch to a private label, they don't always go back.[36] However, some experts believe 50 percent is the natural limit on how much private-label volume to carry because consumers prefer certain national brands, and many product categories are not feasible or attractive on a private-label basis. In supermarkets, private labels are big sellers in milk and cheese, bread and baked goods, medications and remedies, paper products, fresh produce, and packaged meats.[37]

Why do retailers sponsor their own brands? First, these brands can be more profitable. Retailers may be able to use manufacturers with excess capacity that will produce private-label goods at low cost. Other costs (such as research and development, advertising, sales promotion, and physical distribution) are also much lower, so private labels can generate a higher profit margin.[38] Retailers also develop exclusive store brands to differentiate themselves from competitors. Many price-sensitive consumers prefer store brands in certain categories. These preferences give retailers increased bargaining power with marketers of national brands.[39]

We should distinguish private-label or store brands from generics. *Generics* are unbranded, plainly packaged, less expensive versions of common products such as spaghetti, paper towels, and canned peaches. They offer standard or lower quality at a price that may be as much as 20 percent to 40 percent lower than nationally advertised brands and 10 percent to 20 percent lower than the retailer's private-label brands. The lower price is made possible by lower-cost labeling and packaging and minimal advertising, and sometimes by lower-quality ingredients.

Retailers are building better quality into their store brands and emphasizing attractive, innovative packaging. Supermarket retailers are adding premium store-brand items. When Kroger's switched to new vendors to supply higher-quality cheeses, meats, and veggies for its upscale private-label pizza, sales soared; the supermarket chain now owns 60 percent of the premium pizza market in its stores.[40] One of the most successful supermarket retailers with private labels is Canada's Loblaws.

> **Loblaws** Since 1984, when its President's Choice line of foods made its debut, the term *private label* has brought Loblaws instantly to mind. The Toronto-based company's Decadent Chocolate Chip Cookie quickly became a Canadian leader and showed how innovative store brands could compete effectively with national brands by matching or even exceeding their quality. A finely tuned brand strategy for its premium President's Choice line and its no-frills, yellow-labeled No Name line has helped differentiate

its stores and has built Loblaws into a powerhouse in Canada and the United States. The President's Choice line has become so successful that Loblaws is licensing it to noncompetitive retailers in other countries. To complete a "good, better, best" brand portfolio, Loblaws has also introduced an "affordable luxury" line of more than 200 President's Choice food products under a distinctive "Black Label" design. Each one—from eight-year-old cheddar and ginger-spiced chocolate sauce to bacon marmalade—is marketed with a story about where it's from, who produces it, and why it was chosen. To capitalize on the overall strength of its private labels, Loblaws launched a Food Network reality TV show, *Recipe to Riches*, where contestants compete to have their homemade recipes developed into an actual President's Choice product available to purchase the very next day at Loblaws stores.[41]

Loblaws' line of distinctively packaged President's Choice foods is indicative of the increasing quality and success of private-label brands.
Source: Helen Sessions/Alamy Stock Photo

Although retailers get credit for the success of private labels, the growing power of store brands has also benefited from the weakening of national brands. Many consumers have become more price sensitive, a trend reinforced by the continuous barrage of coupons and price specials that has trained a generation to buy on price. Competing manufacturers and national retailers copy and duplicate the quality and features of the best brands in a category, reducing physical product differentiation. Moreover, by cutting marketing communication budgets, some firms have made it harder to create any intangible differences in brand image. A steady stream of brand extensions and line extensions has blurred brand identity at times and led to a confusing amount of product proliferation.

Bucking these trends, many manufacturers of national brands are fighting back. To stay a step ahead of store brands, leading brand marketers are investing significantly in research and development to bring out new brands, line extensions, features, and quality improvements. They are also investing in strong "pull" advertising programs to maintain high brand recognition and consumer preference and to overcome the in-store marketing advantage that private labels can enjoy.

Top-brand marketers also are seeking to partner with major mass distributors in a joint search for logistical economies and competitive strategies that produce savings for both sides. Cutting all unnecessary costs allows national brands to command a price premium, although price can't exceed consumers' perception of value.

Researchers offer four strategic recommendations for manufacturers to compete against or collaborate with private labels.[42]

- *Fight selectively* when manufacturers can win against private labels and add value for consumers, retailers, and shareholders. This typically occurs when the brand is number one or two in the category or occupies a premium niche position. Procter & Gamble rationalized its portfolio, selling off various brands such as Sunny Delight juice drink, Jif peanut butter, and Crisco shortening, in part so it could concentrate on strengthening its 20-plus brands with more than $1 billion in sales.
- *Partner effectively* by seeking win–win relationships with retailers through strategies that complement the retailer's private labels. Estée Lauder created four brands (American Beauty, Flirt, Good Skin, and Grassroots) exclusively for Kohl's to help the retailer generate volume and protect its more prestigious brands in the process. Manufacturers selling through hard discounters such as Lidl and Aldi have increased sales by finding new customers who have not previously bought the brand.
- *Innovate brilliantly* with new products to help beat private labels. Continuously launching incrementally new products keeps the manufacturer brands looking fresh, but the firm must also periodically launch radically new products and protect the intellectual property of all brands. Kraft doubled the number of its patent lawyers to make sure its innovations were legally protected as much as possible.
- *Create winning value propositions* by imbuing brands with symbolic imagery as well as functional quality that beats private labels. Too many manufacturer brands have let private labels equal them, and sometimes better them, on functional quality. In addition, to have a winning value proposition, marketers need to monitor pricing and ensure that perceived benefits equal the price premium.

Creating strong consumer demand is crucial. When Walmart decided to pull Hefty and Glad food bags from its shelves, selling just Ziploc and its own Great Value brand, Hefty and Glad stood to lose because the retail giant accounted for a third of their sales. When consumers complained about the loss of these and other brands and switched some of their shopping to other stores, Walmart relented and put Hefty and Glad back on the shelves.

WHOLESALING

Wholesaling includes all the activities involved in selling goods or services to those who buy for resale or who make large purchases for business use. Wholesalers buy large quantities of goods from various producers or vendors, warehouse them, and resell them to retailers who, in turn, sell them to the general public.

THE BUSINESS OF WHOLESALING

Wholesalers differ from retailers in a number of ways. First, wholesalers pay less attention to promotion, atmosphere, and location because they are dealing with business customers rather than final consumers. Second, wholesale transactions are usually larger than retail transactions, and wholesalers usually cover a larger trade area than retailers. Third, wholesalers and retailers are subject to different legal regulations and taxes.

Based on their transactions with buyers and sellers, wholesalers can be divided into two main groups:

- **Merchant wholesalers** typically buy directly from the manufacturer, take title to the merchandise they handle, store the product, and then sell it to the customer. Merchant wholesalers vary in the level of service they offer. *Full-service wholesalers* can provide a vast array of supplementary functions, such as maintaining a sales force to promote the products, offering credit, making deliveries, and providing management assistance. In contrast, *limited-service wholesalers* offer few if any extra services and instead aim to offer lower prices on merchandise. For example, *cash and carry wholesalers* sell a limited line of fast-moving goods to small retailers in a no-frills environment, only for cash, and with limited return privileges or no-return policies.
- *Brokers and agents* differ from merchant wholesalers in that they typically do not take ownership of the goods they buy and sell. Instead, they arrange for the sale of goods between the merchant wholesaler and the retailer and receive a fee for the arrangement of the sale. Brokers bring buyers and sellers together and assist in negotiation; they are paid by the party hiring them—food

brokers, real estate brokers, insurance brokers. Agents represent buyers or sellers on a more permanent basis and aim to facilitate buying and selling, on commission typically based on the selling price.

Wholesalers play a key role by serving as an intermediary between manufacturers and retailers. They are particularly important in industries with fragmented retail outlets, where they provide distribution and related services, helping to improve the effectiveness and cost efficiency of operations. Consider AmerisourceBergen—one of the largest wholesalers in the United States.

Drug wholesaler AmerisourceBergen handles about 20 percent of all pharmaceuticals sold in the United States and also supplies Walgreens Boots Alliance, which operates 18,000 pharmacies throughout the world.
Source: Kristoffer Tripplaar/Alamy Stock Photo

AmerisourceBergen Corporation AmerisourceBergen Corporation is an American drug wholesale company that distributes brand name and generic pharmaceuticals, as well as over-the-counter (OTC) health care products and equipment, to a wide variety of health care providers such as hospitals and health systems, retail pharmacies, mail-order facilities, physicians, clinics, and assisted-living centers. The company was formed in 2001 by the merger of Bergen Brunswig and AmeriSource Health Corporation—two of the largest U.S. wholesale drug companies. In 2013, AmerisourceBergen became the supplier for Walgreens Boots Alliance—one of the world's largest pharmacy retailers and drug distributors, which operates over 18,000 pharmacy stores around the world. The leading provider of specialty logistics for the biopharmaceutical industry, AmerisourceBergen has more than 150 offices and over 20,000 employees worldwide and ships over 3 million products each day. It is a market leader in pharmaceutical distribution, handling about 20 percent of all of the pharmaceuticals sold in the United States, with over $153 billion in annual revenue.[43]

KEY FUNCTIONS PERFORMED BY WHOLESALERS

Why do manufacturers not sell directly to retailers or final consumers? Why use wholesalers at all? In general, wholesalers can more efficiently perform one or more of the following functions.

- *Providing access to individual retailers.* Wholesalers' sales forces help manufacturers reach many small retailers and business customers at a relatively low cost. They have more contacts, and buyers often trust them more than they trust a distant manufacturer.
- *Buying and assortment building.* Wholesalers are able to select items and build the assortments their customers need, saving them considerable time, money, and effort.
- *Bulk breaking.* Wholesalers achieve savings for their customers by buying large carload lots and breaking the bulk into smaller units.
- *Warehousing.* Wholesalers hold inventories, thereby reducing inventory costs and risks to suppliers and customers.
- *Transportation.* Wholesalers can often provide quicker delivery to buyers because they are closer to the buyers.
- *Financing.* Wholesalers finance customers by granting credit, and they finance suppliers by ordering early and paying bills on time.
- *Risk bearing.* Wholesalers absorb some risk by taking title to goods and bearing the cost of theft, damage, spoilage, and obsolescence.
- *Market research.* Wholesalers provide both suppliers and customers with information about competitors' activities, such as new products and price developments.

- *Management services and consulting.* Wholesalers often help retailers improve their operations by training sales clerks, helping with store layouts and displays, and setting up accounting and inventory-control systems. They may help industrial customers by offering training and technical services.

Wholesaler–distributors have faced mounting pressure in recent years from new sources of competition, including digital platforms such as Alibaba, demanding customers, new technologies, and more direct-buying programs by large industrial, institutional, and retail buyers. Manufacturers' major complaints against wholesalers are that they do not aggressively promote the manufacturer's product line and act more like order takers; that they do not carry enough inventory and therefore do not fill customers' orders fast enough; that they do not supply the manufacturer with up-to-date market, customer, and competitive information; and that they charge too much for their services.

Savvy wholesalers have rallied to the challenge and adapted their services to meet their suppliers' and target customers' changing needs. They recognize that they must add value to the channel. Arrow Electronics has done just that.

> **Arrow Electronics** Arrow Electronics is a global wholesaler of electronics and office products. It serves as a supply channel partner for more than 150,000 original-equipment manufacturers, value-added resellers, contract manufacturers, and commercial customers through a global network. Arrow maintains over 300 sales facilities and 45 distribution and value-added centers, serving over 80 countries. With huge contract manufacturers buying more parts directly from suppliers, however, distributors like Arrow are being squeezed out. To better compete, the company has embraced services, providing financing, on-site inventory management, parts-tracking software, and chip programming.[44]

Wholesalers have worked to increase asset productivity by better managing inventories and receivables. They are also reducing operating costs by investing in more advanced information systems, materials-handling technology, and digital technologies. Finally, they are improving their strategic decisions about target markets, product assortment and services, price, communication, and distribution.

The wholesaling industry remains vulnerable to one of the most enduring trends: fierce resistance to price increases and the winnowing out of suppliers based on cost and quality. The trend toward vertical integration, in which manufacturers try to control or own their intermediaries, is still strong.

marketing INSIGHT

Managing the Price Image of a Retailer

Price image reflects the general perception that consumers have about the level of prices at a given retailer. For example, Walmart is often regarded as being rather inexpensive, whereas Target is usually considered to be moderately priced. Price image differs from price, which is quantitatively expressed; price image is qualitative in nature. This means that consumers regard a retailer’s pricing in categorical terms such as “expensive” or “inexpensive.” Price image resides in the minds of the buyers; thus, it is based on consumers’ perception of prices at a particular retailer compared to other retailers and may not be an accurate reflection of the actual level of a retailer’s prices.

Many managers mistakenly believe that price image is based solely on the prices within a specific store and that managing price image is as simple as adjusting the prices of items the store carries. This results in the theory that a retailer can lower its price image by lowering the prices of items in its assortment.

However, this method of resetting price image has not proved effective. Low or high prices are an important factor in the formation of a retailer’s price image, but prices are not the only things that consumers consider when forming a judgment about price image. Figure 16.1 depicts the key drivers of price image and their related impact on consumer behavior.

- *Average price level.* Price image does indeed hinge on the actual prices of the items carried by a particular retailer, although not entirely. A store in which prices are substantially above those of its competitors will find it difficult to convince customers that it is not high priced, regardless of other measures it may take to change its price image.

- *Known-value items.* Consumers typically do not examine all prices at a store; instead, they tend to focus on items whose prices they are familiar with, which are referred to as known-value or signpost items. Because shoppers are aware of the prices for these items at other stores, they use them to determine whether or not a particular price is competitive. Known-value items usually fall into the category of frequently purchased items like milk, soda, and snacks, allowing consumers to readily compare prices across different stores.
- *Price range.* Consumers form an assessment of price image not just from the average level of prices at a retailer, but also from the range of prices within the store. If, in addition to commonly purchased known-value items, a retailer carries a few extremely high-priced items, that retailer is likely to have a higher price image than a retailer that carries a few extremely low-priced items along with the most commonly purchased items.
- *Sales promotions.* Consumers' price image might also be affected by how prices vary over time, particularly because of sales promotions. No consistent empirical evidence exists to support the conventional wisdom suggesting that everyday low pricing (EDLP) conveys a lower price image to consumers than high–low (HiLo) pricing, with its temporary deep discounts on high-priced items. Actually, HiLo pricing can often elicit a lower price image than EDLP, even when the average price level is the same.
- *Price communication.* Because shoppers can't examine all prices of all items at all retailers, it is extremely important for retailers to effectively communicate their prices to consumers, enabling them to form a more accurate price image. Consumers' price sensitivity tends to be heightened by price communication that increases their focus on price. Furthermore, communication that underscores savings (such as by providing reference prices or enumerating the money saved) encourages the formation of a low price image.
- *Physical attributes.* The physical features of a retailer can impact price image by conveying a message about store costs and sales volume. A store located in a prime area populated by luxury retailers and featuring exquisite décor and high-end amenities is likely to be associated with high operating costs that signal a higher price image.

On the other hand, large stores in shopping malls with expansive parking lots are likely to signal the high sales volume that consumers associate with a lower price image.

- *Service level.* Another highly visible aspect that contributes to a retailer's price image is the level of service offered. In general, consumers tend to associate higher levels of service with a higher price image, whatever the retailer's actual prices, because they assume that offering better service increases the retailer's costs, which is likely to elevate retailer prices.
- *Store policies.* Customers might also form their price image of a retailer on the basis of its price-related policies. Thus, policies, such as a price-match guarantee, that reveal the store's commitment to customer value and confidence in the competitiveness of its prices, are likely to lead to a lower price image. On the other hand, consumers might associate a generous return policy with higher retailer costs, leading to a higher price image.

Effectively managing price image requires managers to look beyond the supposition that price image is determined solely by the prices of the items a retailer carries and that managing (lowering) price image is merely a matter of managing (lowering) retail prices. Thoughtful alignment of *all* factors that affect price image with the retailer's overall strategy and tactics will go far toward building a meaningful price image that helps create value for the retailer as well as its customers.[45]

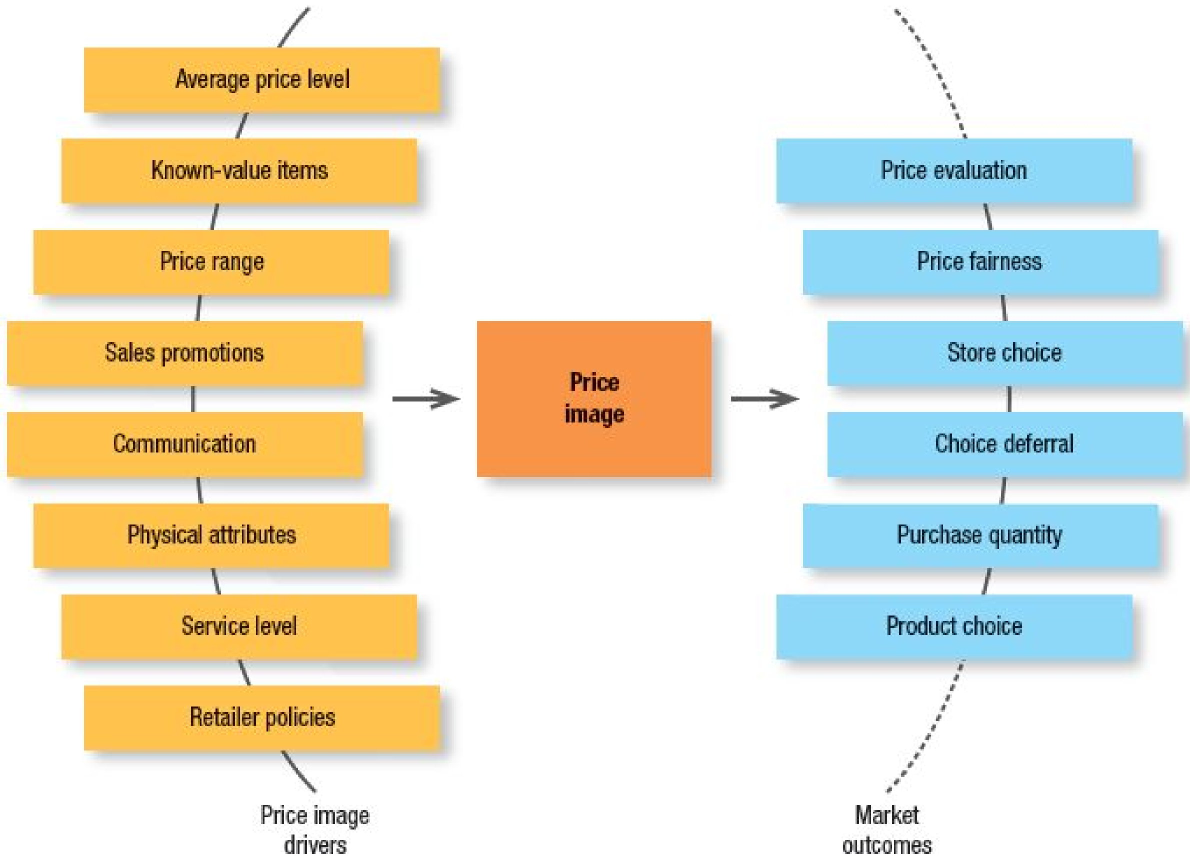


FIGURE 16.1
Price Image Drivers and Market Outcomes
Source: Alexander Chernev, *Strategic Marketing Management: Theory and Practice* (Chicago, IL: Cerebellum Press, 2019).

SUMMARY

1. *Retailing* includes all the activities involved in selling goods or services directly to final consumers for personal, nonbusiness use. Any organization selling to final consumers—whether it is a manufacturer, wholesaler, or retailer—is doing retailing, regardless of how and where the goods or services are sold.
2. The retail market is very dynamic, and a number of new types of competitors and competition have emerged in recent years. The important *developments in retailing* include the emergence of new retail forms and combinations; retailer consolidation; the growth of mobile, omnichannel,

and fast retailing; the increasing role of technology in retailing; and the decline of middle-market retailers.

3. Key *retailing decisions* include identifying the target market, selecting the product assortment; developing procurement, determining the types and level of services to be offered, designing the store atmosphere and experiences, setting the prices, defining the incentives, and managing communication.
4. Based on the degree to which they have established a physical presence, we can distinguish among *brick-and-mortar* retailers, *online* retailers that engage in e-commerce without a physical retail location, and *omnichannel* companies that have both a physical and an online presence. Managing both online and offline channels has become a priority for many retailers.
5. *Private labels* are brands developed and managed by retailers and wholesalers. Private labels are typically (but not always) priced lower than national brands. Retailers sponsor their own brands because it enables them to differentiate themselves from competitors, while at the same time reaching price-sensitive consumers. Because of lower research and development, advertising, sales promotion, and physical distribution costs, private labels can also generate a higher profit margin.
6. *Wholesaling* includes all the activities involved in selling goods or services to those who buy for resale or business use. Wholesalers can perform functions better and more cost effectively than the manufacturer can. These functions include selling and promoting, buying and assortment building, bulk breaking, warehousing, transportation, financing, risk bearing, dissemination of market information, and provision of management services and consulting.
7. Like retailers, wholesalers must decide on target markets, product assortment and services, price, promotion, and place. The most successful are those that adapt their services to meet suppliers' and target customers' needs.

marketing SPOTINSIGHT

UNIQLO

Source: mauritius images GmbH/Alamy Stock Photo

Uniqlo is a Japanese casual wear designer, manufacturer, and retailer. The name is a portmanteau that combines the words *unique* and *clothing*, which reflects the company's philosophy of creating simple yet stylish casual clothing. Uniqlo has quickly developed a presence around the globe, expanding to over 1,500 stores worldwide and competing with Zara and H&M to become the world's largest fashion retailer. In 2017, Uniqlo reported over $7 billion in revenue.

Founder Tadashi Yanai inherited his father's chain of tailoring stores in Ube, Yamaguchi, in 1972. Inspired by large clothing chains in Europe and the United States, Yanai saw potential in the Japanese casual wear market and changed his family's business strategy from tailoring to selling casual clothing at low cost. After becoming company president in 1984, Yanai opened the first "Unique Clothing Warehouse" in Naka-ku, Hiroshima, which later was rebranded as Uniqlo. One of Uniqlo's first business challenges was to overcome customer perception. Because Uniqlo sold casual clothing at low cost, people believed that its garments were of low quality. It wasn't until 1998, when Uniqlo opened a three-story store in Harajuku, one of Tokyo's most popular shopping destinations, that consumer perception changed.

Consumers noticed that Uniqlo was selling high-quality fleece jackets at affordable prices. This precipitated a complete shift in customer perception of the brand—from cheap apparel to high-quality, affordable casual wear. By the end of 1998, Uniqlo had expanded to over 300 stores across Japan.

Compared to other popular clothing retailers, Uniqlo's brand philosophy takes a very simple and inclusive approach. Its brand message is that "Uniqlo is a modern Japanese company that inspires the world to dress casual." Unlike clothing retailers such as Zara and H&M, Uniqlo does not seek to follow fashion trends. Instead, Uniqlo designs and markets its clothing to be accessible and universal, a key ingredient in the company's success. This is embodied in Uniqlo's brand motto, "Made for All." Uniqlo has designed its clothing to appeal to all consumers, regardless of age, ethnicity, or gender. The clothing is basic but still allows wearers to express their own sense of style by pairing it with other garments and accessories.

Uniqlo creates products for three primary segments: women, men, and children, including babies. In each of these three segments, Uniqlo sells five different types of clothing: outerwear, tops, bottoms, inner-wear, and home-wear. In the outerwear category, Uniqlo is known for its Ultra-Light Down jacket, which is light and thin but still provides excellent insulation. Tops include mainly basic dresses, blouses, T-shirts, polos, and sweaters. Uniqlo's bottoms include pants, shorts, skirts, and leggings. Uniqlo offers designer collections in the tops and bottoms categories, for those seeking a more stylish flair to their wardrobes. Most Uniqlo inner-wear and home-wear is specifically designed with comfort in mind, varying in breathability and warmth.

Another aspect of Uniqlo's success is its clothing design and innovation. Yanai frequently affirms that Uniqlo is not a fashion company, but rather a technology company. Uniqlo has invested in improving the performance of its clothes through technological innovations. HeatTech fabric creates heat from moisture and locks in the heat with air pockets embedded in the fabric. AIRism fabric is light and stretchy and maintains breathability across many temperatures. Lifewear crosses sportswear and casual wear and is designed to be an everyday piece of clothing. By branding these fabric innovations and emphasizing superior performance and functionality, Uniqlo distinguishes its clothing from that of other low-cost value retailers.

Yet another factor in Uniqlo's success is that it is able to sell functional and quality clothing at low prices. After discovering that many of the popular foreign clothing chains (such as Gap and Benetton) were vertically integrated, Tadashi Yanai followed suit to take full control of product design, production, and retailing. Fast-fashion retailers design their supply chain to respond to rapidly changing fashion trends in as little as two weeks. Uniqlo instead plans its production of essentials and basics months in advance. The company aligns production with its marketing campaigns to adjust quantities based on consumer demand, and staff members visit production plants to ensure that new clothes are of Uniqlo quality.

To build its brand, Uniqlo uses many different methods beyond traditional TV commercials and flyers. One approach is a strong emphasis on the in-store experience. Bright lights, combined with neatly stacked displays and efficient organization, convey Uniqlo's message of simplicity and accessibility. Digital screens that explain the benefits of Uniqlo's innovations and styles are strategically placed in open areas. Uniqlo has also committed to creating distinct customer service. It trains its in-store staff for three months, significantly longer than the industry average. Yanai also is planning the launch of Uniqlo University, where more than 1,500 managers will be trained and sent out across the globe every year. Employees are trained to go out of their way to interact with customers and help them find the right product, using six standard phrases that include "Did you find everything you were looking for?" and "Let me know if you need anything. My name is ___________." Greeters at the entrances of stores wish customers a warm welcome and a friendly goodbye.

Uniqlo's strong brand positioning and "Made for All" philosophy—reflected in its marketing, design, operations, and service—have helped make the company a giant in global clothing retailing and one of the world's most valuable clothing retailers.[46]

Questions

1. What are the key aspects of Uniqlo's customer value proposition?
2. Should Uniqlo stay vertically integrated? Or should it rely more heavily on outsourcing to improve flexibility and achieve economies of scale?

3. What role does the company culture play in delivering superior customer experience?

marketing SPOTINSIGHT

CROMA

Croma, launched in 2006, is owned and operated by Tata's Infiniti Retail that records as India's first large format specialist retail chain for electronic appliances and gadgets. In its journey of more than a decade, Croma became one of the most sought electronic retail outlets known for its tech-savvy staff, customer relationship management, omnichannel presence, value-added pricing, strategic partnerships, and customized product offerings with over 6,000 products across 200 brands, 150+ stores spread across 40+ cities in India.[47]

Source: Paulose NK.shutterstock.com

Croma has undergone major shifts in its business model and strategic management. It has grown from a brick-and-mortar company to a huge network with omnipresence, to compete with major e-commerce companies like Amazon. In 2008, Croma launched its own-labelled products—air-conditioners, televisions, refrigerators, home appliances, digital accessories like earphones—at affordable prices, targeting the young crowd below 30 years. The company reported 300 percent growth in its private label product portfolio in a span of three years (2015–2018).[48]

Year 2018 marked the comeback for Croma after experiencing major losses in 2016 due to fierce competition by the e-commerce players offering a huge range of products at steeply discounted prices. Croma now entered the market with a much stronger network and a differentiated omni-channel approach including strategic product partnerships and improved customer support services.

This approach helped the company match up to the changing needs and preferences of the consumers in the digital era. With its prime focus to improve the overall customer shopping experience, Croma enhanced its service-offerings through all possible means such as online service portal, mobile applications and retail outlets.

Croma has changed its targeting and promotional strategy with social media campaigns and promotions to establish better connect with the customers and improve visibility. It also helped them to understand the needs and concerns of its target customers. Croma revamped its store design, interiors, layout and display with enhanced focus on high-selling products like smart phones and sound systems, to increase the footfall and improve the conversion rate. The display areas of Croma are now transformed as ‘interactive space’, where customers can experience and engage with the products. As a result, Croma reported an increase in conversion rate from 13% in 2017 to 16% in 2018.

With its omnichannel model, Croma leveraged digital marketing to improve its market share through a value-added pricing strategy. Unlike the discounted pricing offered by e-commerce players, Croma decided to stick to its value-add pricing approach. It offers high quality products with added benefits like free installation and post purchase services, easy finance options, extended warranty, buyback facility and customized value-added offerings etc. With its 24×7 support system, Croma has emerged as one of the most trusted electronics brands in India.

To grab exclusive selling rights and other competitive perks from companies, Croma signed up partnerships with several leading brands—Hitachi, Samsung and Apple. Croma offers dynamic and exclusive display for their products with trained and knowledgeable staff. In turn, Croma gets exclusive sales rights for products along with customization and several value-added features. A few specific models and colors from these partner brands are sold exclusively at Croma stores. Its partnership for exclusive product offerings provides Croma an advantage as well as stability.

With its smart product display, personalized promotions, omni channel model and strategic partnership, Croma has emerged as one of the leading specialist retail stores for electronics and digital gadgets in India. The company continues to strive for leadership by providing value-added product offerings complemented with personalized post-purchase customer support services.[49]

Questions

1. What were the keys to Croma's success? What are the challenges it faces in today's retail environment?
2. How else can Croma compete against both retail competitors like Reliance Digital and online competitors like Amazon and Flipkart?
3. Should Croma focus on expanding brand partnerships? What are the pros and cons of this approach?