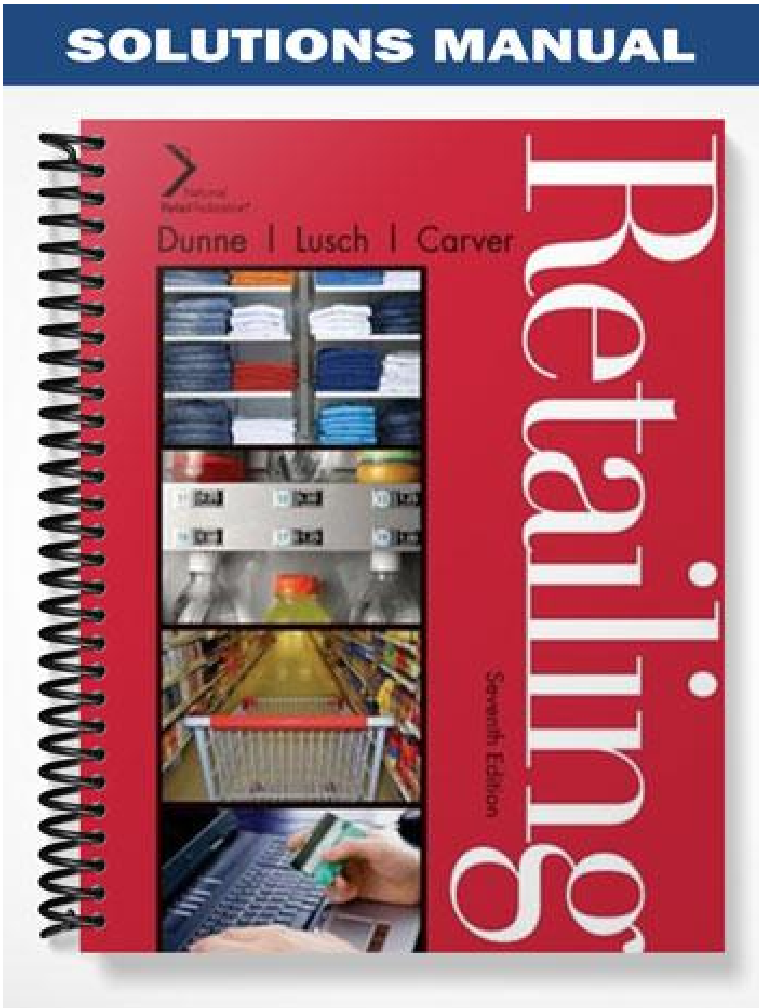
SOLUTIONS MANUAL
Dunne | Lusch | Carver
Retailing
Seventh Edition

Chapter 2
Retail Strategic Planning and Operations Management

Overview:

In this chapter, we will explain the importance of planning in successful retail organizations. To facilitate the discussion, we introduce a retail planning and management model that will serve as a frame of reference for the remainder of the text. This simple model illustrates the importance of strategic planning and operations management. These two activities, if properly conducted, will enable a retail firm to achieve results exceeding those of the competition.

Learning Objectives:

After reading this chapter, you should be able to:

1. Explain why strategic planning is so important and be able to describe the components of strategic planning: statement of mission; goals and objectives; an analysis of strengths, weaknesses, opportunities, and threats; and strategy.
2. Describe the text's retail strategic planning and operations management model, which explains the two tasks that a retailer must perform and how they lead to higher profit.

Outline:

I. Components of Strategic Planning
   - A. **Planning** - The anticipation and organization of what needs to be done to reach an objective.
   - B. One form of planning is **strategic planning**. This type of planning involves adapting the resources of the firm to the opportunities and threats of an ever-changing retail environment. The strategic planning process consists of four components:
     1. **Mission Statement** – A basic description of the fundamental nature, rationale, and direction of the firm. While mission statements vary from retailer to retailer, good ones usually include three elements:
        - a. How the retailer uses or intends to use its resources.
        - b. How it expects to relate to the ever-changing environment.
        - c. The kinds of values it intends to provide in order to serve the needs and wants of the consumer.
     2. Statement of **Goals and Objectives** - The goals and objectives should be derived from, and give precision and direction to, the retailer's mission statement. Goals and objectives should identify the performance results that the retailer intends to bring about through the execution of its major strategies. A retailer's objectives are usually categorized into four

dimensions (see Exhibit 2-2):

a. Market Performance – establish the amount of dominance the retailer seeks in the marketplace. The most popular measures of market performance in retailing are:
   (1) Sales volume
   (2) **Market share** – the retailer's total sales divided by total market sales.

b. Financial - A retailer analyzes its ability to provide an adequate profit level to continue in business.
   (1) Profitability - deal directly with the monetary return a retailer desires from its business. The most frequently encountered profit objectives in a retail enterprise are shown in Exhibit 2.1: the strategic profit model (SPM). The elements of the SPM are:
      (a) **Net profit margin** - the ratio of net profit (after taxes) to net sales and shows how much profit a retailer makes on each dollar of sales after expenses and taxes have been met.
      (b) **Asset turnover** – total sales divided by total assets. This measure shows how many dollars of sales a retailer can generate on an annual basis with each dollar invested in assets. Attempts to increase asset turnover by merely reducing inventory levels can lead to **stockouts** (where products are not available for customers when they want them), thus creating a dissatisfied customer who may never return.
      (c) **Return on assets** (ROA) - net profit (after taxes) divided by total assets.
      (d) **Financial leverage** - total assets divided by net worth or owners' equity. This measure shows how aggressive the retailer is in its use of debt.
      (e) **Return on net worth** (RONW) - net profit (after taxes) divided by owners' equity.
   (2) Productivity - Objectives that state how much output the retailer desires for each unit of resource input. The major resources at the retailer's disposal are:
      (a) **Space productivity** - net sales divided by the total square feet of retail floor space. A space productivity objective states how many dollars in sales the retailer wants to generate for each square foot of store space.
      (b) **Labor productivity** - net sales divided by the number of full-time-equivalent employees. A labor productivity objective reflects how many dollars in

sales the retailer desires to generate for each full-time-equivalent employee.

(c) **Merchandise productivity** - net sales divided by the average dollar investment in inventory. This objective (also known as sales-to-stock ratio) states the annual dollar sales the retailer desires to generate for each dollar invested in inventory.

c. Societal - reflect the retailers' desire to help society fulfill some of its needs. The five most frequently cited societal objectives are:

(1) **Employment** - relate to the provision of employment opportunities for the members of the retailer's community.

(2) **Payment of taxes** - recognizes the retailer's role in helping finance societal needs that the government deems appropriate.

(3) **Consumer choice** – the goal to compete in such a way that the consumer will be given real alternatives.

(4) **Equity** - reflects the retailer's desire to treat the consumer and suppliers fairly and not endanger their living conditions.

(5) **Benefactor** - reflects the retailer's desire to underwrite certain community activities.

d. Personal - reflect the retailers' desire to help individuals employed in retailing fulfill some of their needs. Generally retailers tend to pursue three types of personal objectives.

(1) **Self gratification** - focuses on the needs and desires of the owners, managers, or employees of the firm and their pursuit of what they truly want out of life.

(2) **Status and respect** - focus on the owners', managers', or employees' need for status and respect in their community or within their circle of friends.

(3) **Power and authority** - reflect the need of managers and other employees to be in positions of influence.

3. **Strategies** - Carefully designed plans for achieving the retailer's goals and objectives. It is a course of action that when executed will produce the desired levels of performance.

a. Some experts believe retailers can operate with three basic strategies:

(1) Get shoppers into your store. Often referred to as a retailer's traffic strategy, many retailers think this is one of the most difficult tasks in retailing - getting people to visit your website or to come into your store.

(2) Convert these shoppers into customers by having them purchase merchandise. Often referred to as a "retailer's conversion" or "closure" strategy, this means having the right merchandise, using the right layout and display, and having

the right sales force.

(3) Do this at the lowest operating cost possible that is consistent with the level of service that your customers expect. This is often referred to as a "retailer's cost management" strategy.

b. Many retailers go further and use strategies that enable them to differentiate themselves from the competition in order to accomplish these three tasks. They do this by means of differentiation -- that is, what sets them apart from their competition. Some better forms of differentiation for a retailer are:

(1) Physical differentiation of the product

(2) The selling process by offering outstanding service

(3) After-purchase satisfaction by taking care of the customer after the sale has been made

(4) Location or the ease with which the customer can get to the retailer

(5) Never being out-of-stock on sizes, colors, and styles that the retailer's target market expects the retailer to carry

4. Identification and analysis of the retailer's strengths and weaknesses as well as the threats and opportunities that exist in the environment.

a. Before developing differentiation strategies, however, the retailer must also be aware of its current market position. It can do this with a SWOT Analysis:

(1) **Strengths** -

(a) What major competitive advantage(s) do we have?

(b) What are we good at?

(c) What do customers perceive as our strong points?

(2) **Weaknesses** -

(a) What major competitive advantage(s) do competitors have over us?

(b) What are competitors better at than we are?

(c) What are our major internal weaknesses?

(3) **Opportunities** -

(a) What favorable environmental trends may benefit our firm?

(b) What is the competition doing in our market?

(c) What areas of business that are closely related to ours are undeveloped?

(4) **Threats** -

(a) What unfortunate environmental trends exist that may hurt our future performance?

(b) What technology is on the horizon that may soon have an impact on our firm?

b. After performing the SWOT Analysis, the retailer should generate strategies for achieving its goals. The retailer should have a fully developed marketing strategy that should include:

(1) The specific **target market** is the group(s) of customers that the retailer is seeking to serve.

(2) The **location**(s) that is consistent with the needs and wants of the desired target market.

(3) The specific **retail mix** that the retailer intends to use to appeal to its target market, and thereby meet its financial objectives. The retail mix is the combination of merchandise, price, advertising and promotion, location, customer services and selling, and store layout and design that the retailer intends to use to appeal to its target market to meets its financial objectives (see Exhibit 2.5).

(4) The retailer's **value proposition** which is a clear statement of the tangible and intangible results a customer receives from using the retailer's products or services. It is the difference between the benefits offered by one retailer versus those of the competition.

II. The Retail Strategic Planning and Operations Management Model - A retailer must take part in the following types of planning and management tasks:

A. **Strategic Planning** - The process is concerned with how the retailer responds to the environment in an effort to establish a long-term course of action. The strategic plan should reflect the line(s) of trade in which the retailer will operate, the market(s) it will pursue, and the retail mix it will use. Strategic planning calls for the long-term commitment of resources. The strategic planning process requires a retailer to:

1. Define the mission; establish goals and objectives; perform a SWOT analysis.
2. The next steps are to select the target market and appropriate location(s) of each retail establishment; often an uncontrollable factor.
3. Then the retailer must develop the firm's retail mix. After assessing the external environment in order to uncover opportunities to gain a differential advantage over competitors, the retailer should develop a strong marketing plan with both market and financial performance objectives. Major environmental factors that need to be considered include (see Exhibit 2-6):

a. **Consumer Behavior** - Understand the determinants of consumers' shopping behavior.

b. **Competitor Behavior** - Develop a competitive strategy that is not easily imitated.

c. **Supply Chain Behavior** - Understand that manufacturers or wholesalers are always seeking to improve their position in the supply chain thus bypassing the retailer.

d. **Socioeconomic Environment** - Understand how economic and demographic trends will influence future revenues and costs.

e. **Technological Environment** - Gather knowledge in regard to opportunities for improving operating efficiency.

f. **Legal and Ethical Environment** - Be familiar with local, state and federal regulations; stay current with evolving legal patterns that may effect the industry while operating at the highest ethical standards.

B. **Operations Management** – is concerned with maximizing the efficiency of the retailer's use of resources and with how the retailer converts these resources into sales and profits. It is frequently referred to as day-to-day management.

C. High Performance Results - Achieved through the development and implementation of well-designed strategic, operational, and administrative plans. High performance results are indicative of industry leaders. Retailers must set high financial performance objectives so that they can at least maintain average operating results if planned results are not achieved.

Review and Discussion Questions:

[LO01] <u>Explain why strategic planning is so important and describe its components</u>. (40-62)

1. Why is strategic planning so important in retailing today? Should a retailer, even a small retailer, always have a strategy to change the rules of the game as it is currently being played? Why?
   SOLUTION: (40-42) Strategic planning involves adapting the resources of the firm to the opportunities and threats of an ever-changing retail environment. Through the proper use of strategic planning, retailers hope to achieve and maintain a balance between resources available and opportunities ahead. Also, a clearly defined plan of action is an essential ingredient in all forms of successful business management.
   All retailers should have a strategy in place so that they are able to change the rules of the game being played or, if they can't change the rules, to have a strategy to win the game as it is currently being played. The strategy should consist of a specific objective, an area of operation, and the understanding of what makes a retailer better than its competitors.

2. How do the retail firm's mission statement and its stated goals and objectives relate to the retailer's development of competitive strategy?
   SOLUTION: (42-44) The beginning of a retailer's strategic planning process is the formulation of a mission statement. It provides the employees and customers with an understanding of where future growth for the firm will come from. But, just having a mission statement is not enough in today's business climate.
   Then goals and objectives are derived from and give precision and direction to the retailer's mission statement. Goals and objectives serve two purposes. First, they provide specific direction and guidance to the firm in the formulation of its strategy. Second, they provide a control mechanism by establishing a standard against which the firm can

measure and evaluate its performance.

3. Most college students have either strong favorable or unfavorable opinions of their campus nightspots. Suppose you were asked to advise one of the businesses near your campus, what suggestions would you make for it to differentiate itself?
SOLUTION: (57-60) Depending on the college campus nightspots availability, answers will vary. Development of a differentiation strategy will start with an analysis of the night spot owner's strengths and weaknesses as well as the threats and opportunities that exist in the college campus. This process of SWOT analysis (SWOT for strengths, weaknesses, opportunities, and threats), will involve asking the following baseline questions:

<u>Strengths</u>

1. Its competitive advantage?
2. What is it good at?
3. What do students like about it?

<u>Weaknesses</u>

1. Competitive advantage and strength of its competitors in that area.
2. What are its major weaknesses?

<u>Opportunities</u>

1. The probable student population in that area, who still does not frequent nightspots?
2. How the competitors are performing in that area?
3. Any emerging market trend that can affect the business?

<u>Threats</u>

1. Is market facing any unfortunate economic downturn?
2. Is student population declining because of exams or holidays?
3. Is the consumer affected by competitor's marketing strategies?

4. Can a mission statement be too narrow in scope? Can it be too broad in scope? Explain your answers.
SOLUTION: (42-44) A mission statement can be short or long, as long as it provides direction for the future of the firm. The mission statements vary from retailer to retailer, and good ones usually include three elements:
1. How the retailer uses or intends to use its resources,
2. How it expects to relate to the ever-changing environment, and
3. The kinds of values it intends to provide in order to serve the needs and wants of the consumer.
However, in today's business climate, just having a mission statement is not enough. The retailer must adhere to its mission, but at the same time a mission statement must be changed to accommodate the changing business environment.

5. Chose any two supermarkets operating in your college area or hometown. Compare and contrast their retail mix as they seek to satisfy the needs of their target market given their present location. What changes would you suggest to the management of these retailers as

they develop their strategic plans for the coming year?
SOLUTION: (61-62) Answers will vary depending on which two supermarkets are selected for comparison and contrasting purposes. The instructor should assist in the discussion by clarifying the students' understanding of the components of the retail mix (i.e. the combination of merchandise, price, advertising and promotion, customer services and selling, and store layout and design). When a clear understanding of these components is achieved, the instructor will want to ask the students' perception of the respective target markets. Building upon that, the various changes and adjustments can be proposed and discussed.

6. An automobile dealer located near your campus visits your class. During her presentation, she notes that her mission statement is "We will provide the best vehicle sales and service experience for our customers. We will do this in a way that will foster the continuous improvement of our people and our company. We will be a top-performing, thoroughly professional, and genuinely caring organization in all that we do." Would you offer any suggestions for changing this mission statement? If so why?
SOLUTION: (42-44) Students may take various positions on the strength of this mission statement. Their suggestions will also vary in accordance to the varying answers. What is important here is, to verify the answers to following questions before drawing out the strengths, thus suggestions to the given mission statement:
    1. Does this mission statement really answer the question, "What business the retailer is in?"
    2. Does it provide direction for the future of the firm?
    3. Is it motivational?
    4. Does it relate to the ever-changing environment?
    5. Does it serve or intend to serve the needs and wants of the consumer?

7. Many retailers use their loyalty cards, such as that described in the chapter's "What New?" box, to gather information about customers. Are they invading their customers' privacy? Should this be allowed? After all, how would some of your classmates react if parents found out what movies they viewed on pay-per-view?
SOLUTION: (61-62) Answers will vary. Students may take various positions on loyalty cards in accordance to their respective perceptions to privacy invasion. The instructor should assist in the discussion by clarifying the students' understanding of the components of the retail mix (i.e. the combination of merchandise, price, advertising and promotion, customer services and selling, and store layout and design). When a clear understanding of these components is achieved, the student can be asked its perception on such programs. Building upon that, discussions can be held.

[LO02] <u>Describe the text's retail strategic planning and operations management model</u>. (62-67)

8. What are the major environmental forces that retailers will face over the next five years? Is any one more important than the others?

SOLUTION: (64-65) The major environmental factors that a retailer must face are:

1. consumer behavior - understanding the determinants of consumer's shopping behavior
2. competitor behavior - understanding how the behavior of competing retailers will have an impact on strategies the retailer will want to develop
3. supply chain behavior - keeping abreast of the behavior of channel members (e.g., manufacturers opening up their own retail stores) and its impact on retailer behavior
4. socioeconomic environment - understanding how economic trends and demographics can influence future retail sales
5. technological environment - gathering data on new and better ways of performing the many tasks of a retailer (e.g., use of computers to improve inventory control)
6. legal and ethical environment - familiarizing yourself with federal, state, and local regulations having an impact on the retailer's performance and behaving at the highest level of ethical performance

Given these environmental factors, students will need to forecast the varying ways these forces will impact retailers. For example, a student may propose that within the context of consumer behavior, consumers within the next five years will continually move toward the desire for products to be delivered via the Internet. Should the student propose this, they may also want to give a specific example such as the desire to obtain music via an Internet download service as opposed to purchasing CDs at a brick & mortar store.

These forces cannot be controlled by a single retailer. However, threats emanating from the forces are usually translated into opportunities by successful retailers. Questions of importance will be varied in the opinions expressed by the students regarding each of the discussed forces.

9. Does strategic planning become more or less important as the uncertainty the retailer faces increases?

   SOLUTION: (62-64) Strategic planning is necessary and important in situations where certainty is either high or low. In situations of high uncertainty, its importance is heightened because of constraints on a retailer (e.g., monies available). If a wrong decision is made, there is no opportunity for a second chance. This can be true in an environment of high certainty, but the degree of risk may be lessened.

10. When doing the strategic planning and operations management tasks described in our model, does the retailer use creative thinking or analytical problem solving?

    SOLUTION: (62-67; Chapter 1) When doing the planning and management tasks as described in the model in the text, the retailer should use both creative thinking and analytical problem solving. For example, McDonald's uses creative thinking in making the decision to locate at army bases, hospitals, and universities. At the same time, analytical problem solving comes into play in the decisions the retailer makes on how to better motivate employees. At times, when looking at retailers, it is difficult to distinguish these approaches from one another but nonetheless both should be used.

11. A person once said, "A good manager can overcome a bad plan." Agree or disagree with this statement and explain your reasoning. Use current examples, if possible, in your answer. Would your answer be the same if the person said, "A good plan can overcome a poor manager?"
SOLUTION: (64, 66) Answers will vary. Students will take different positions on above statement. The instructor has to assist in understanding of retail strategic planning and operations management model (Exhibit 2.6). The model suggests that the cumulative effect of well-designed and executed strategic and operations plans will be the achievement of high profit. Mistakes in either of these two areas will severely hamper the retailer's performance and prevent it from being among the leaders in its industry. The instructor can also take the help of McDonald's example discussed here.

12. Why is it so important for a retailer to seek high profit performance? Isn't it enough to be above average?
SOLUTION: (66-67) In the highly competitive world of retailing, it is not enough to be above average in performance. Retailers must seek high performance results to both succeed and survive. Being slightly above average can place you in fourth or fifth place. With the fierce competition that now exists, this might not be sufficient. However, a below average retailer can hope to achieve slightly above average results as an intermediate goal; the long-run goal is superior results. Students must realize that when averages are presented by organizations such as the National Retail Federation, performance figures by all types of retailers are included.

Writing and Speaking Exercise:

Dolph Drake, the owner of Bulldog Books, has three bookstores near the campus of a large state university. In the past, he has run his stores very informally. He likes to claim that he is successful because he doesn't think too much and that he makes most of his decisions by the "seat of his pants." Over the past five years profits at each store have increased between 5 percent and 7 percent each year, despite the fact that the average price of textbooks has doubled. Also, Drake has never given much thought to changing his original plans for his bookstores.

While Drake was the first to open off-campus stores and therefore got the prime locations, competitors are beginning to appear near all three of his stores. In fact, just recently an out-of-town competitor gathered the majority of the end-of semester textbook buybacks, one of the most profitable activities for a campus bookstore. This out-of-towner merely set up a drive-through buyback operation at a nearby parking lot so that students could pull up under an awning, hand over their books, and drive off with money within minutes. Even though the competitor left town the next day, Drake expects other book buyers will seek to "hit and run" at the end of the fall semester.

As a result of this recent loss of business, Drake feels that it is time to develop a more structured approach for his business and asks you as part of your summer internship to research the strategic planning process. You are to prepare a memo on the basic steps and tasks that are involved in developing a strategic plan. Be sure to include in your memo a mission statement and a list of objectives that Bulldog Books should seek to achieve.

Suggested Answer:
The student may choose to approach this question from a variety of angles within the context of strategic planning. However, there are some common elements that should be discussed:

First, the memo should include supporting reference that explains why strategic planning is so important. This might include a discussion on how “planning is the anticipation and organization of what needs to be done to reach an objective.” Illustrations on how the lack of planning can spell disaster also help substantiate the need for strategic planning. Clarification between strategy and objectives as well as delineation between strategic plans and financial plans will substantiate the argument that a strategic plan is necessary to improve performance.

Second, the memo should include a discussion of the major environmental forces in play. In this particular situation, three forces are highly applicable:

1. Consumer behavior - It appears, students were attracted by the ease of disposal of old textbooks which to Drake meant taking away a major share of one of the most profitable activity of campus bookstore.
2. Competitor behavior - In this case, the book buyer merely set up a drive-through buyback operation at a nearby parking lot.
3. Supply Chain behavior – More book buyers will seek to “hit and run” at the end of the fall semester

Third, the memo should include a tie-in from these environmental forces at play to the threats and opportunities presented to the retail chain. Garnering from the information the individual students provide, they will want to expound on how the firm will perceive these as a threat and an opportunity, given the resources, current positioning, and competitive environment.

Finally, the memo could include an outline of how these forces, threats, and opportunities fit in with the bookstore’s market performance and financial objectives and ultimately its mission statement.

Retail Project:

Go to the library and either look at the most recent annual reports for four or five of the Top 25 U.S. retailers listed on the inside cover of this text or locate the 10-Ks of those firms on the Internet. [Note: All publicly held firms need to file their U.S. Security and Exchange Commission 10-Ks, a more complete financial analysis of the firm’s performance, electronically. To look up this information, go to http://www.sec.gov/edgar.shtml]. Use the SPM described in Exhibits 2.1 and 2.4 to calculate your own SPM numbers for these retailers.

Finally, after you have calculated these numbers, which retailer do you believe is the best at achieving financial superiority?

Suggested Answer: The correct answer for this assignment will depend on the retailer's performance in future years.

Case:

Rethinking Strategy at Macy's *

While many business leaders claim to embrace change, Macy's CEO Terry Lundgren may have learned that some parts of the past were valuable keys to customer loyalty.

Throughout its 150-year history, the midrange department store had grown by acquiring small regional department store chains such as Bamberger's in New Jersey (1929), O'Connor Moffat in San Francisco (1945), and John Taylor Dry Goods in Kansas City (1947). These stores were usually renamed Macy's within a few years. Besides economies of scale in advertising and back-office operations, the Macy's management thought that customers would be attracted to the cachet of a New York City icon in their cities and towns. While there was often nostalgia for the traditional local retailer's name, the renamed stores generally prospered.

The purchase-and-rename strategy continued throughout the 1990s as Macy's merged with Federated. Indeed, the merged department store giants were renamed Macy's, Inc., and a strategy was in place to make the Macy's name a national department store brand. However, the recent acquisition of the May Department Store chain by Federated/Macy's meant the demise of some highly regarded regional chains: Filene's, Jordan Marsh, The Broadway, Emporium, Hecht's, Woodward-Lothrop, John Wanamaker, Bullock's, I. Magnin, Abraham & Strauss, Liberty House, Burdine's, Goldsmith's, Lazarus, and Bon Marche.

These acquired chains often had a loyal customer group that relished the unique heritage of the regional brand. The customers would replace the Field's name. Field's had always positioned itself as an upmarket brand that attracted middle- and upper-income customers, a notch above the typical Macy's positioning. Its enormous flagship on State Street had similar historic associations and ritual destination shopping activity as to Macy's Herald Square location. Macy's may have its Thanksgiving parade, but Field's had the Walnut Room, Tiffany glass ceilings, and sections of high-end designer goods such as the 28 Shop. Field's had also developed its local identity through its signature Frango mints, as much an embodiment of refined Chicago as the Field's name.

Soon after the announcement of the name change, Field's State Street location saw dozens of customers picketing and protesting. The anniversary of the name change is still marked by demonstration protests from those who had been Fields' most loyal customers. Credit cards were cut up and mailed to Macy's offices. The Macy's outlets that had been Marshall Field's reported slower sales, but the company's strategy would not retreat to the past. While it had continued some signature items such as Frango's mints and Chicago-themed tourist merchandise, Macy's would not try to persuade Fields' former customers to give the store another look.

Instead, Macy’s would focus on attracting a new group of customers with exclusive merchandise from Martha Stewart, Tommy Hilfiger, and Donald Trump, as well as its Alfani and I.N.C. private label brands. It would further its shop-within-a-shop strategy with Thomas Pink shirts, Levenger leather goods, and an FAO Schwarz toy floor. The updated glitz would come with a wine bar added to the Walnut Room and its Christmas tree decorated by Martha Stewart.

Recently, CEO Lundgren announced a new strategy to tailor Macy’s merchandise more uniquely to each store location and region. The “My Macy’s” strategy would see that each store was designed and merchandised to reflect local tastes in order to recapture a sense of local affiliation. It would accomplish this by putting more Macy’s merchants into local markets to better understand customer preferences for styling, sizes, and colors. In doing so, it was attempting to bring back a small part of the old retailer’s image. In Chicago, for example, Marshall Field’s reintroduced men’s suits from Hart Schaffner Marx to a few stores (Marshall Field’s used to sell a lot of them) and brought back Joseph Abboud suits in selected locations. It also began selling tuxedos again at the State Street flagship. In a reverse from its centralization in recent years, Macy’s would create 20 regional districts. However, as one protesting shareholder complained, “You are pushing for ‘my Macy’s,’ but for me and most of my Chicago neighbors, I want my Marshall Fields.”

Questions

1. How should Macy’s balance the strength in advertising and promotion from having a national branded store with the strength that comes from having a locally branded store? After all, do consumers in Chicago care that much about a Thanksgiving Day parade in New York City?

   Suggested Answer:

   Answers will vary. Instructor has to assist students to understand that how to develop a marketing strategy. A fully developed marketing strategy should address the following considerations: the specific target market, location, the specific retail mix that the retailer intends to use, and the retailer’s value proposition.

   In this case, Instructor can give some inputs like the following: each store can be designed and merchandised to reflect local tastes in order to recapture a sense of local affiliation, understand local customer preferences for styling, sizes, and colors. Macy’s can also decentralize to address local strategies effectively.

   Such guided discussion could lead students explore through various strategies and address the question.

2. If Macy’s continues as a national brand, other than merchandising to local tastes, what can be done to make the store more local?

   Suggested Answer:

   There are many strategies to consider. However, it is important to set out well-defined goals and objectives to accomplish with any merged operation. With those in mind, the target market needs to be fully identified. Then, the location in which the offering is presented (online/store/mixed offering) should be well marked. Planning for the retail mix needed for the target market is also essential. Finally, the value proposition of the additional offerings should be determined. In looking at these areas, the students should suggest a better, more focused strategy for Macy's.

* This case was prepared by Jan Owens, Carthage College, Kenosha, WI and used with her written permission. Suggested answers prepared by the instructor's manual author.

Planning Your Own Retail Business:

In the "planning your own retail business" exercise in Chapter 1, you learned how to estimate the net profits that your business might earn. You saw what would happen if your sales estimate was off by 10 percent. Now it is time to analyze the dollar investment you need in assets to support your business and how you might finance these assets.

Your investment in assets would need to cover inventory, fixtures, equipment, cash, customer credit (i.e., accounts receivable), and perhaps other assets. These assets could be financed with debt or by investments you or perhaps other investors make in the business.

Compute the strategic profit model ratios under the assumption that your first year sales are $700,000, net profit is $66,000, total investment in assets is $400,000, and the total debt to finance these assets is $250,000. [Hint: net worth is equal to total assets less debt.] What would happen to these ratios if net profit rose to $75,000?

Suggested Answer:

NPM	**X**	**Asset Turnover**	**=**	**ROA**	**X**	**Financial Leverage**	**=**	**RONW**
OLD								
Net Profit/ Total Sales		Total Sales/ Total Assets		Net Profit/ Total Assets		Total Assets/ Net Worth		Net Profit/ Net Worth
$66,000/ $700,000	X	$700,000/ $400,000	=	$66,000/ $400,000	X	$400,000/ $150,000	=	$66,000/ $150,000
9.4%	X	1.75	=	16.5%	X	2.67	=	44.0%
NEW								
Net Profit/ Total Sales		Total Sales/ Total Assets		Net Profit/ Total Assets		Total Assets/ Net Worth		Net Profit/ Net Worth
$75,000/ $700,000	X	$700,000/ $400,000	=	$75,000/ $400,000	X	$400,000/ $150,000	=	$75,000/ $150,000
10.71%	X	1.75	=	18.75%	X	2.67	=	50.0%

TEACHING TIPS

1. This rather short chapter is one of the most important in the whole text because it deals

with the importance of planning. All too often retailers tend to react instead of plan and as a result many retailers that were hot yesterday are gone today. It is because of these oversights that the authors placed the planning chapter at the beginning of the text and not at the end. Unless students understand the role of planning in the overall success of a retail operation, they won't understand the significance of the next section of the text - The Retailing Environment. After all, the need for planning is based on an understanding of the changing environment.

2. Have the students locate the mission statement for one of their favorite retailers. After the mission statement is identified, have students critique the mission statement based upon the guidelines for mission statements presented in the chapter. Ask the students to recommend changes to improve the mission statement. These recommendations can be presented and subsequently discussed for further understanding of what makes a good mission statement.

3. If the class has the necessary background, the instructor might want to spend a little extra time on the Strategic Profit Model, Exhibit 2.1, which is a good vehicle for reviewing the impact of various strategic decisions on the retailer's financial performance. A simple discussion of the difficulty of increasing both the net profit margin and asset turnover at the same time can be informative.

4. Students often ask if return on assets (ROA) is a better measure than return on net worth (RONW) for assessing a retailer's financial performance. It is probably safest to use return on assets (ROA) when measuring a retailer's efficiency since making a return on all funds invested in the firm whether contributed by owners or creditors is expected. Using only return on net worth can be misleading if it is high due to high financial leverage rather than efficient management of assets. However, if owners or shareholders want to assess the overall financial performance of the entire retail organization, such as JCPenney or Sears, then use of return on net worth is most appropriate since it clearly states what the owners got out of the business (net profit) given what the owners have invested in the business (net worth).

5. The chapter's "Retailing: The Inside Story" box (48-49) discusses the yield management strategy in the airline industry. The authors argue that yield management works best in markets with five characteristics: (1) low marginal costs, (2) fixed capacity, (3) perishable product, (4) fluctuating demand, and (5) different market segments. After providing a review of these concepts as outlined in the text, the instructor may wish to enhance the discussion of yield management with a basic economic review of supply, demand, and equilibrium price. Following this review, the class can come up with other industries where such market characteristics exist (i.e. hotel, restaurant, rental car, education, etc.).

6. While less than seventy-five percent of small retailers engage in a continuous comprehensive strategic planning process to reexamine niches in the marketplace and

identify changes, ninety percent of large retail firms do it. Nevertheless, here are some of the key mistakes retailers make when doing strategic planning:

1. Thinking strategic plans are merely extensions of financial plans
2. Confusing strategy and objectives
3. Expecting consultants to plan
4. Too much reliance on in-house staff experts and on quantitative tools
5. Focusing on expansion and diversification and ignoring the base business
6. Taking too narrow a perspective

7. Pose the question: “How should a retailer determine the proportion and the number of market performance, financial performance, societal, and personal objectives?” This question is intended to stimulate discussion as student’s search for their own understanding of retail’s role in their lives. For example, some students may view that a retailer should serve societies interests and thus should have more societal objectives than financial objectives (The Body Shop is one example of a retailer that employs a great number of societal objectives), while others may view the retailer as an economic entity whose primary purpose is financial. Here, there is no right or wrong answer necessarily, but rather a structured platform upon which students can question the role of retailers in the strategic planning and operations management process.

8. Instructors may also find it useful to have students, either individually or in small groups, create mission statements (conforming to the guidelines for mission statements) and a statement of goals and objectives for popular retailers, such as Wal-Mart, Amazon.com, etc. Then, each student or group’s mission statement and statement of goals and objectives can be written on the board. A comparison of individual/groups perspective is typically quite enlightening as most often each individual’s/ group’s is unique, stressing differing aspects of the retailer’s role.

9. The Teaching in Action section presents a SWOT analysis for a popular restaurant, TrueValue. The authors have found that most students are familiar with Outback and as such the exploration on the restaurant’s strengths, weaknesses, opportunities, and threats provides for an invigorated discussion. In a small class, this exercise can actually be conducted in the restaurant during a field trip to truly bring retailing to life for students.

10. The instructor can use the Teaching in Action SWOT analysis for Outback Steakhouse or the SWOT analysis for TrueValue store found in the chapter’s “Exhibit 2.3” box (59-60) as a model for completing a SWOT analysis of a retailer. In fact, the instructor could review the SWOT analysis for TrueValue found in the text and then assign the SWOT analysis for Outback Steakhouse as an activity to be done in class or as homework. Then, the instructor can guide the students through the process as practice. Finally, the instructor can ask the students to perform a SWOT analysis for a retailer of their choice. This will cement the concept of SWOT analysis and heighten student awareness of the various components when discussing other retailers in the course.

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TEACHING IN ACTION

SWOT Analysis for Outback Steakhouse

One of the most interesting areas of retailing to observe is the restaurant industry. This industry is highly competitive. Restaurants open, shine briefly, and then die, as low-wage employees take off while costs spiral and the restaurant's popularity and prices decline. One of the most successful restaurant operators to open during the past decade has been Outback Steakhouse. Here is what their SWOT analysis might look like and provides an insight as to why Outback has been so successful. Outback positioned itself between the "low-end" 1960s-era "family steakhouses" like Bonanza and Ponderosa with their $8.00 average tab per person and the white-table-cloth steakhouses with their $50.00 per person tabs.

<u>Strengths:</u>

What are the major competitive advantages we have over the competition?

1. A "catchy name and atmosphere" that sets us apart from the competition.
2. Veteran managers at all stores as a result of requiring managers to have an ownership in their restaurant. This enables us to keep an entrepreneurial flame burning inside them. This is also supported by an unconventional decentralize management structure that results in an extremely low manager turnover (5.4% vs. a 30%-40% industry average).
3. High wages for staff since we are only open for dinner (Average ticket is $16 with bar tab, thus a typical table of four generates a tip of $10.00 or about $30 an hour in tips. This enables the chain to hire and retain only the best.)

What are we good at?

1. We have one of the highest cash flows in the industry.

What do customers perceive as our strong points?

1. High quality steak in a clean atmosphere with excellent service/staff.

<u>Weaknesses:</u>

What is the major competitive advantage that competitors have over us?

1. A few competitors that are perceived as being at the higher-end of the market, such as Ruth's Chris and Del Frisco's Double Eagle, with a more formal white-table-cloth dinning atmosphere. However, their prices really put them out of our market.

What are competitors better at than we are?

1. Some restaurant operators, such as Bonanza, Ponderosa, and Golden Corral, have lower prices but not our quality and/or service. However, we have added "value items," i.e.; hamburgers, on the regular menu in order to attract some of these customers.

What are our major internal weaknesses?

1. Many competing restaurants operate in better locations in comparison to us. However, by not competing for the lunch crowd, we have no need to operate in high-rent areas. We can operate in lower-rent suburban areas where people are at night.

2. A feeling that some customers have expressed but isn't true - that we are rushing them in order to turn the tables faster. These customers want to enjoy a leisurely meal with friends and family. This is a problem because many other customers want that type of fast service.

<u>Opportunities:</u>

What favorable environmental trends exist that may benefit our firm?

1. The fact that steak remains the country's favorite entree.
2. A growing trend toward casual dining exists throughout the country.

What is the competition doing in our market?

1. Many older restaurants will soon be exiting the marketplace and some may try to copy us as a means of survival.
2. Others, such as Texas Land & Cattle Co., Velandi Ranch, and Lone Star Steakhouse have also targeted our market in recent years.

<u>Threats:</u>

What unfortunate environmental trends exist that may hurt our future performance?

1. Press reports warning consumers about the dangers of eating too much red meat.
2. An economic slowdown that has negatively impacted sales at higher-end restaurants in recent years, but hasn't yet reached the middle-priced types such as ours.

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