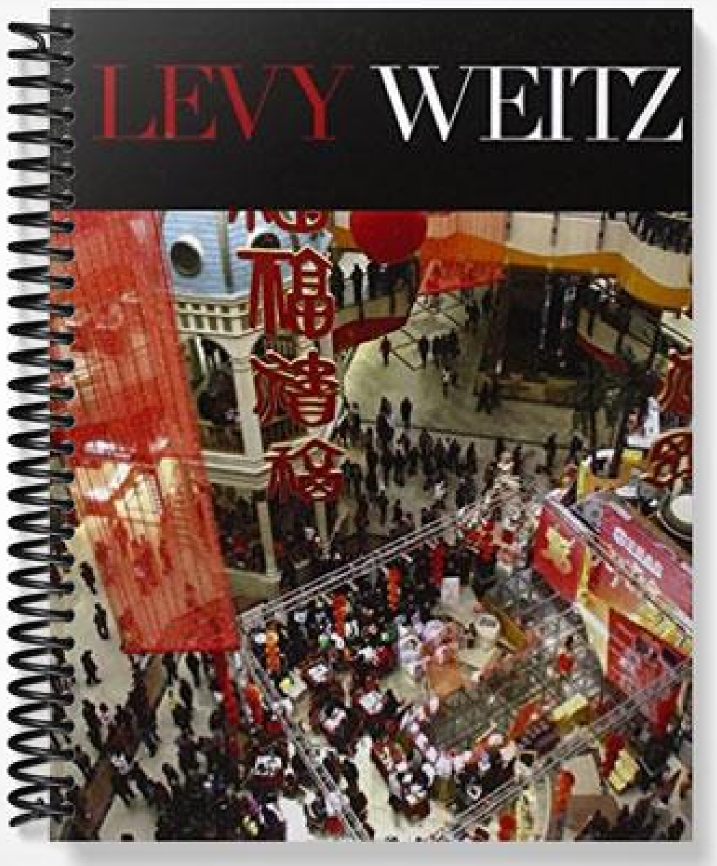
SOLUTIONS MANUAL



CHAPTER 2
TYPES OF RETAILERS

CONVERSION NOTES

Berman & Evans, 10th edition — Chapters 4, 5 & 6

CASES AND ANCILLARY CASES

CASE 1: Tractor Supply Company: Targeting the Hobby Farmer

Synopsis: The Tractor Supply Company case introduces students to a unique retailing story. By recognizing a target market with unique needs, TSC repositioned its traditional tractor-parts business into a specialty retailer serving a variety of needs for consumers entertaining their interests in part-time farming and ranching. This growing consumer segment has been TSC's focus for the past 15 years as it developed a merchandise variety and assortment well beyond its early focus on tractor parts. This case provides a comprehensive illustration of TSC's retail mix. It describes TSC's growth strategies with a specific emphasis on the firm's current merchandise variety, target market relationships and technology practices.

CASE 2: Rainforest Café: A Wild Place to Shop and Eat

Synopsis: **Video Segment 5, Rainforest Café, complements this case.** The Rainforest Cafe is a theme restaurant similar in concept to Planet Hollywood and Hard Rock Cafe. The case describes the concept of a theme restaurant that develops and sells branded merchandise associated with the restaurant's theme. This case illustrates a retailer's efforts to sell both merchandise and services, along with an entertainment experience.

CASE 3: Providing a Retail Experience: Build-A-Bear Workshop

Synopsis: **Video Segment 6, Build-A-Bear, complements this case.** Build-A-Bear Workshop is a unique chain of over 170 stores where customers can build their own teddy bears and, in general, obtain a novel and fun experience. The case highlights the strategy and operations of a typical store and types of experiences enjoyed by customers. Build-A-Bear provides an excellent example of a specialty retailer, focused on providing high merchandise assortment and high levels of customer service with a very limited merchandise variety.

CASE 6: Mall Anchors Away! The Franklins Discover Online Shopping

Synopsis: Case 6 describes a comparison of one family's experiences in brick-and-mortar versus online shopping. Searching for a model to build with his 6-year old son at several types of store-based retailers, Drew Franklin has the opportunity to review the strengths and weaknesses of several types of brick-and-mortar formats from category killers to discounters to specialty stores. The Franklins continue their shopping experience into nonstore retailing territory, again experiencing all the pros and cons of the online retailing format. The case provides opportunities to review and compare various bricks-and-mortar and online retail formats and strategies with students.

CASE 8: Retailing in India: The Impact of Hypermarkets

Synopsis: **Video Segment 2, Retail Revolution in India, complements this case.** The Retailing in India case describes the efforts of retailers like Wal-Mart, Tesco and Carrefour to explore opportunities to move into retailing in India through development of hypermarkets. The case describes economic growth and developments in the Indian retail marketplace, as well as changes in the behaviors of Indian consumers that have combined to create a very attractive potential opportunity for global retailers. The case describes both the opportunities presented for development of the hypermarket format, as well as the competitive challenges which these hypermarkets will likely create in the traditional retail markets in India.

CASE 10: Save-a-Lot

Synopsis: Save-a-Lot is an exemplar of the retail category known as an extreme value food retailer. The case describes the target market, location, merchandising, buying and operations strategies of extreme value food retailers and also identifies some trends. The Save-a-Lot case illustrates the increasingly popular extreme value food retailer category.

CASE 12: The Competitive Environment in the 18- to 22-Year-Old Apparel Market

Synopsis: American Eagle and Abercrombie & Fitch are rival retailers vying for a competitive leadership position among the same segment of the teenage/college student market. Each, however, pursues a slightly different strategy, even though some similarities have raised legal questions. The case details the strategies, merchandising, operations, and competitive positions of the two retailers. This case provides an opportunity to examine and compare the strategies of two competing retailers.

CASE 26 – Discount Dining Draws a Crowd: Restaurant Weeks in Major Cities

Synopsis: This case describes the growing popularity of Restaurant Weeks in major cities. During these weeks, anywhere from 60 to 200 restaurants take part in the promotions by offering special deals to consumers during certain days and times during the event. The case illustrates this unique trend in food retailing, as well as the promotional strategies participating retailers and cities use to get the word out about these special events.

Ancillary Case A1: Wedding Channel.com

Synopsis: Wedding Channel.com is a unique and comprehensive channel that not only helps would-be brides and grooms obtain information and help plan their wedding, but also provides critical products through online shops for both the couple and their guests. The case describes the core business model of the site as well as enumerates the various sources of value to consumers as well as partnering retailers.

Ancillary Case A2: Value Retailers: Dollar General and Family Dollar Cater to an Underserved Market Segment

Synopsis: Dollar General and Family Dollar are exemplars of the retail category known as extreme value retailers. The case describes the target market, location, merchandising, buying and operations strategies of extreme value retailers and also identifies some trends.

Ancillary Case A8: The Gap and Old Navy

Synopsis: The Gap is a multinational apparel manufacturing and retailing conglomerate. In an effort to expand and diversify its appeal, the company has in recent years opened up Old Navy, and Banana Republic. All of the company's stores have customers of their own, but they all compete with one another to some extent. This case offers a comprehensive look at the retail strategies of two category killers.

Ancillary Case A9: Blue Sky Surf Shop – Twenty-One Years of Surfing and Still Going Strong

Synopsis: Blue Sky Surf Shop is a highly successful specialty store that caters to surfing enthusiasts. The store, which has been in business for over two decades, draws most of its business from its loyal customers and word of mouth referrals. The Blue Sky Surf Shop offers an excellent example of both specialty store retailing and independent retail ownership.

Ancillary Case A10: Cleveland Clinic

Synopsis: The Cleveland Clinic is a well-respected health care provider facing a changing competitive environment. In response to this changing environment, Cleveland Clinic is opening facilities in South Florida. It illustrates the parallels between health care (services) retailing and the more traditional in-store retailing formats. This case provides a detailed look at a services retailer's retail mix.

Ancillary Case A11: Niketown

Synopsis: Nike, the manufacturer of the leading brand of athletic shoes, has opened retail outlets to showcase their products. These outlets have a unique and highly entertaining store environment. It illustrates an innovative retailing approach that emphasizes store design and layout to entertain customer while they buy merchandise. This case illustrates the outlet store form of general merchandise retailing.

Ancillary Case A12: Simon and Smith

Synopsis: Two partners in a medium-sized women's specialty store look at potential changes in customer base and discuss opportunities to attract younger customers. This case provides a focus on creation of retail strategy for specialty retailers, specifically those strategy issues involved with determining an appropriate target market.

Ancillary Case A13: Marquette Army/Navy Surplus Store

Synopsis: Army/Navy Surplus store is considering various new strategic directions. The store was originally a typical military surplus store with a large assortment of military clothing. Items included used uniforms, canteens, and helmets as well as new merchandise. As the store grew, it added a department carrying trendy clothing for female teenagers. The store is facing several problems with its current retail strategy including promotions and pricing. This case should generate interesting discussion about merchandise variety and assortment.

VIDEO SEGMENTS

Video Segment 1: The History of Wal-Mart

Teaching Use: Illustration of retail formats – general merchandise discount store and warehouse club

Summary:

This video follows the remarkable growth of Wal-Mart, from the grand opening of Walton's 5 & 10 in the early 1950s to today. Wal-Mart is the largest retail merchant in the world. This segment discusses the history of the firm up to the present. Sam Walton started his retailing career by opening a Ben Franklin franchised variety store in a small town in Arkansas. Then he attempted to convince Ben Franklin to allow him to sell his merchandise at lower prices so he could open discount stores in small rural communities. When Ben Franklin decided not to support his concept, Walton proceeded on his own to open his first discount store in 1960 in Rodgers, Arkansas. This store, store #1, is still open.

The video then traces the evolution of Wal-Mart – national expansion of general merchandise discount stores, the launching of Sam's Club warehouse clubs, and international expansion. The video stresses the importance Wal-Mart places on people, both customers and employees.

Video Segment 2: Retail Revolution in India

Teaching Use: Types of Retailers

This video can be used alone or in conjunction with Case 8: "Retailing in India: The Impact of Hypermarkets," located in Section V of the textbook.

Summary:
The economy in India is growing by 8% a year, its stock market rose by nearly 40% in 2005 and foreign investors are flooding in. It is estimated that 70 million Indians in a population of about 1 billion now earn a salary of $18,000 a year, a figure that is set to rise to 140 million by 2011. Many of these people are looking for more choices in where to spend their new-found wealth.

Indian retail is heavily underdeveloped and over 95% of the market is made up of small, family-run stores. There are signs that the Indian government is dropping its traditionally protectionist stance toward these nine million small grocery shops and opening up its retail market to greater overseas investment. This policy change means that, chains like McDonalds, Marks & Spencer, Body Shop and Ikea can, if they want to, open and control their own operations in India.

The Indian government has been conducting an impact analysis of how the introduction of supermarket chains like Tesco and Carrefour would affect its retail sector. The government is trying to find a model that doesn't displace existing retailers. Politicians still feel they have a duty to protect the small shopkeepers they represent. Leaders realize that foreign investment is badly needed to provide the infrastructure to upgrade India's retail industry. An estimated 50% of the country's fruit and vegetables rot by the roadside before they reach market.

Source: Poston, Toby. Countdown to India's retail revolution. *BBC News - Online*, February 8, 2006, http://news.bbc.co.uk/2/hi/business/4662642.stm.

Video Segment 4: West Point Market – A Unique Grocery Retailer

Teaching Use: Types of Retailers

Summary:

As we look at successful retailers today, several dominant trends can be observed. This video explores the success of online retailers, the growth of category killers, and the success of quality-oriented specialty stores. West Point Market is a single-outlet, family-owned and run specialty supermarket that caters to the needs of an upscale clientele. West Point aims at a carefully defined target market by offering a unique assortment of foods, knowledgeable employees and better service not available in conventional supermarkets.

Video Segment 5: Rainforest Café; A Themed Restaurant Chain

Teaching Use: Innovative, new retail concepts. Illustration of increased use of entertainment in retailing

This video can be used alone or in conjunction with Case 1: "Rain Forest Cafe," located in Section V of the textbook.

Summary:

Rainforest Cafe is a theme restaurant in which the customers are seated in a tropical rainforest environment. The video shows the unique design of the restaurant, the types of food served, and the merchandise sold in the restaurant. The use of proprietary animal figures on the merchandise and in the restaurant design is discussed.

In December 2000, Rainforest Café was purchased from the founders by Landry's Seafood Restaurants. At the time, Rainforest Café was experiencing some financial problems due to over expansion. The growth strategy of Rainforest Café focused the development of Rainforest Café restaurants in both high-profile concentrated tourist areas, and in enclosed shopping mall locations. Most of the mall locations had high initial revenues that were followed by prolonged revenue declines. (The repeat business was not high.) While these mall locations generate revenues significantly greater than typical casual dining restaurants, they also had higher operating costs. This video complements Case 1 in the textbook.

Video Segment 6: Build-A-Bear: Experiential Retailing

Teaching Use: Innovative, new retail concept. Illustration of increased use of entertainment in retailing.

This video can be used alone or in conjunction with Case 2: "Build a Bear Workshop," located in Section V of the textbook.

Summary:

Build-A-Bear Workshop is a national mall-based specialty store retailer with over 100 locations in the U.S. The stores target children and sell store stuffed animals. The unique aspect of the firm's retail offering is that children can create their own unique animals and clothes them. The video discusses the critical issues such as employee training and human resource management for a retailer that provide a high level of customer service.

Video Segment 7: Dominos Pizza in Mexico

Teaching Use: Types of retailers – Quick service restaurant

Summary:

Founded in 1960, Domino's Pizza is the recognized world leader in pizza delivery. Domino's operates a network of more than 8,300 franchise and company-owned stores in the United States and more than 55 countries. The Domino's Pizza brand, named a Megabrand by Advertising Age magazine, had approximately $5.1 billion in global retail sales in 2006, comprised of $3.2 billion domestically and nearly $1.9 billion internationally. Source: http://www.dominosbiz.com/Public-EN/Site+Content/Secondary/Franchise+with+Us/

Domino's began expanding its pizza business outside the U.S. in 1983. Domino's success lies in part to its product, pizza seems to be universally accepted, and to its commitment to consistency, the company wants every store to be the same regardless of its location. Still, Domino's has had to make some adjustments to meet the needs of each market. Pizza topping and ingredients reflect local tastes and customs. Delivery methods must also be adapted to individual market conditions. In Japan pizzas are delivered via scooter by people who are very familiar with the neighborhood. Similarly, promotional materials must fit with the market. In Belgium menus are printed in three different languages. Yet, through all of the adjustments to the marketing mix, the company is committed to its core principles.

Domino's is very particular when selecting franchisees to ensure that the company's core principles are emphasized. The company only considers people who are capable of operating a business within corporate guidelines. Domino's provides strong support to its franchisees To facilitate this process. In Mexico for example, the company makes a store visit every 45 days, provides all marketing materials, and provides training.

Video Segment 8: Behind the Scenes at Costco

Teaching Use: Types of Retailers – Warehouse Clubs

Summary:

According to the company homepage, Costco Wholesale Corporation operates an international chain of membership warehouses, mainly under the "Costco Wholesale" name, that carry quality brand name merchandise at substantially lower prices than are typically found at conventional wholesale or retail sources. As of 2008 the company operated 533 warehouses with 50.4 million cardholders in the following locations:

- 391 locations in 40 U.S. States & Puerto Rico
- 75 locations in nine Canadian provinces
- 19 locations in the United Kingdom
- 5 locations in Taiwan
- 6 locations in Korea
- 7 locations in Japan
- 30 locations in 18 Mexican states

Source: http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-homeprofile

Video Segment 9: Yum! Brands - Growth Strategies

Teaching Use: Type of retail format and ownership

Summary:

This video will introduce students to three different segments of the restaurant industry, explain how Taco Bell reinforces this Mexican-inspired brand, describe the importance of excellent customer service in this industry, and illustrate innovative growth strategies being employed by Yum! Brands.

Based on information from the company's homepage, Yum! Brands, Inc. is the world's largest restaurant company with more than 33,000 restaurants in over 100 countries and territories. Yum! Brands operates several different restaurant brands including A&W, KFC, Long John Silver's, Pizza Hut and Taco Bell. Each brand is a global leader in their food category.

Video Segment 10: Rubios Expands through Franchising

Teaching Use: Illustrates franchising form of ownership

Summary:

This video introduces students to an entrepreneurial retail venture that is considering the use of franchising as a way of growing its business more rapidly. The concept for this restaurant chain originated when Ralph Rubio was a college student. He saw the potential for offering fresh, tasty, inexpensive ethnic food to students, families and surfers in San Diego. The chain, Rubio's Fresh Mexican Grill now is a fast growing restaurant chain in the quick/casual fresh Mexican grill category. The restaurants serves a range of Baja-style foods including its "World Famous Fish Taco," great grilled chicken and steak products like burritos, salads, bowls and quesadillas -- in a relaxed and inviting atmosphere. Two decades and more than 50 million fish tacos later, Rubio's operates, licenses or franchises 142 restaurants in California, Arizona, Oregon, Colorado, Utah, and Nevada. The video discusses Rubio's decision to grow through franchising its concept.

Video Segment 21: Wild Oats Markets; Building Employee Commitment

Teaching Use: Types of Retailers – Organic Grocery Store

Summary:

Wild Oats Markets was founded in Boulder, Colorado in 1987 and was the number two Organic Foods retailer behind Whole Foods Market. Wild Oats Markets was acquired by rival Whole Foods Market in August 2007 for about $565 million. This video examines Wild Oats Markets' commitment to hiring, training and corporate responsibility and was recorded prior to the acquisition. Source: http://premium.hoovers.com.ezp.lndlibrary.org/subscribe/co/boneyard/factsheet.xhtml?ID=crkrkrhhttsfyt

Video Segment 25: Netflix- Retailing a Service

Teaching Use: Types of Retailers

Summary:
Netflix is the largest online entertainment subscription service in the world. Its offerings cover the vast range of DVD movies and television series with 80,000 titles, including titles by major and minor studios. It is noted for its extensive collection of documentary films, Japanese anime, and independent films, many of which are usually hard to find in traditional rental stores. Netflix has developed and maintained an extensive recommendation system based on rating and reviews by customers, similar to the system used by Amazon.com. Very few customers ever drop their subscriptions, and those who do likely are not leaving because of a negative experience. The company constantly attempts to improve the features available to customers and respond to customers' problems.

Video Segment 37: Services Marketing

Teaching Use: Types of Retailers

Summary:

Products are sold as physical merchandise, services, or a combination of the two. Services are activities performed by one party for another. Services include everything from receiving a haircut and having an automobile repaired to visiting a science museum or a renting hotel room. Services differ from physical goods in many ways, including intangibility, simultaneous production and consumption, perishability, and inconsistency, each of which are explored in the video.

Video Segment 38: Pet Economy: Pampering Your Pet

Teaching Use: Types of Retailers

This video can be used alone or in conjunction with Case 37, PetSmart: Where pets are family, located in Section V of the textbook.

Summary:

Americans spend $41 billion on their pets a year, double what they spent 10 years ago. Annual spending is expected to hit $52 billion in the next two years, according to Packaged Facts, a consumer research company based in Rockville, MD. That puts the yearly cost of buying, feeding, and caring for pets in excess of what Americans spend on the movies ($10.8 billion), playing video games ($11.6 billion), and listening to recorded music ($10.6 billion) combined.

This video looks at pet services from doggie daycare and manicures to $10,000 boarding bills and vet care. New pet products to pamper your furry friends are also described.

The following discussion questions are based on the video and a cover story by Diane Brady and Christopher Palmeri that was published in BusinessWeek online on August 6, 2007.
Source: http://www.businessweek.com/magazine/content/07_32/b4045001.htm?chan=search.

ANNOTATED OUTLINE	INSTRUCTOR NOTES
I. Retailer Characteristics • The 1.9 million U.S. store-based retailers range from street vendors selling hot dogs to Internet retailers like Amazon.com to multichannel retailers like Best Buy that have both an extensive physical store presence and an active Internet site. • The retail industry is always evolving. As consumer needs and competition within the industry change, new retail formats are created to respond to those changes. • The most basic characteristic of a retailer is its retail mix – the elements used to satisfy its customers' needs. • Four elements of the retail mix that are particularly useful for classifying retailers are: (1) the type of merchandise sold, (2) the variety and assortment of merchandise and/or services sold, (3) the level of customer service, and (4) the price of the merchandise.	*Ask students to compare the four elements of the retail mix -- the type of merchandise sold, the variety and assortment of merchandise and/or services sold, the level of service provided to customers, and price -- of two women's specialty stores in a local mall. Now compare the retail mixes of one of the specialty stores and the local discount store (e.g., Wal-Mart). Use this comparison to illustrate how the competition between the two specialty stores is stronger than the competition between the specialty store and the discount store.* *PPT 2-4, 2-5, and 2-7 illustrate classification of retailers by merchandise offering and by variety and assortment.*
A. Type of Merchandise • The U.S. Census Bureau uses a classification scheme to collect data on business activity in the U.S., Canada, and Mexico. It classifies all businesses into a hierarchical set of six-digit **North American Industry Classification System (NAICS) codes**. Developed jointly by the U.S., Canada and Mexico, NAICS provides comparable statistics about business activity in North America. • The first two digits of NAICS identify the firm's business sector. The remaining four digits identify various sub centers. • It is important to note that even if retailers sell the same type of merchandise, they might not compete directly. The variety and assortment of the merchandise and/or services they offer must also be considered.	*See PPT 2-9 for a classification of retailers according to NAICS codes.* *Use the NAICS discussion to explore categories students may not have considered under the classification (food service and accommodations, for instance).*

B. Variety and Assortment. • **Variety** is the number of merchandise categories a retailer offers. **Assortment** is the number of different items in a merchandise category. Each different item of merchandise is called a **SKU (stock keeping unit**). • Variety is often referred to as the **breadth of merchandise** and assortment is referred to as the **depth of merchandise**.	*See PPT 2-10* *Ask students to give examples of local retailers with low variety and high assortment, with high variety and low assortment.* *PPT 2-11 provides an example of the variety and assortment levels of different types of retailers selling kayaks. For more specific examples of variety and assortment concept applications, see PPT 2-13, 2-14, 2-15* *What benefits does high variety offer to customers? What is the benefit of high assortment?* *Ask student to give an example of an SKU.*
C. Services Offered • Retailers also differ in the services they offer customers. Customers expect retailers to provide some services--accepting personal checks, displaying merchandise, providing parking, and being open long and convenient hours. • Some retailers charge customers for other services, such as home delivery and gift wrapping, although upscale retailers offer customers these services at no charge.	*See PPT 2-12* *Discuss the different customer service policies of a national specialty store like* Victoria's Secret *and a local department store or an Internet retailer.* *Discuss the type of customer that would shop in each store. How do these customers differ and what types of services would these customers expect?*
D. Prices and the Cost of Offering Breadth and Depth of Merchandise and Services • Stocking a deep and broad assortment is appealing to customers but costly for retailers. When a retailer offers many SKUs, inventory investment increases because the retailer must have back-up stock for each SKU. • Similarly, services attract customers to the retailer, but they are also costly. • To make a profit, retailers that offer broader and deeper assortments and services need to	*See example in PPT 2-18 for illustration* *Customers like wide variety, deep assortments, and a lot of service, though some customers appreciate having the retailer edit the assortment for them. Ask students why all retailers don't have this type of offering? (Can't be everything, have constraints of money and size of store.)* *Why don't discount stores offer more services? (They appeal to a target segment that does not want to pay the cost for more service options.)*

charge higher prices. • A critical retail decision involves the trade-off between costs and benefits of maintaining additional inventory or providing additional services.	*PPT 2-19 shows a comparison of sales and growth rates in various retail sectors*
II. Food Retailers • Twenty years ago, consumers purchased food primarily at conventional supermarkets. Now conventional supermarkets account for only 56 percent of food sales. • Supercenters, warehouse clubs, convenience stores and extreme value food retailers are significantly changing consumers' food purchasing patterns because they too sell food. At the same time, traditional food retailers carry many nonfood items. • The world's largest food retailer is Wal-Mart with supermarket-type sales of more than $134 billion.	*See PPT 2-20, 2-21* *Where do students make the majority of their off-campus food purchases? What are the pros and cons of these different food retailer formats?* *PPT 2-22 summarizes various elements of different types of food retailers.*
A. Supermarkets • A **conventional supermarket** is a self-service food store offering groceries, meat, produce, and limited non-food items. • **A limited assortment supermarket** (also called an **extreme value food retailer**) only stocks about 2,000 SKUs. The two largest US examples of these stores are Save-A-Lot and ALDI. • Limited assortment supermarkets are designed to maximize efficiency and reduce costs through limited assortment and service offerings. These cost savings and efficiencies allow the stores to charge significantly lower (40-60% lower) prices than conventional supermarkets.	*See PPT 2-23* *Ask students to consider the retail mixes of the major supermarkets in the area surrounding campus. Which compete on price? On merchandise? On service? A combination?* *PPT 2-24, 2-25, 2-26 describe the Aldi and Save-A-Lot retail strategies.*
1. Trends in Supermarket Retailing • Today, conventional supermarkets are under substantial competitive pressure. Supercenters are attracting customers with	*Ask students about why they would continue to shop at conventional supermarkets. Alternatively, why would they shop for food at supercenters, warehouse clubs or convenience stores? What types of needs are fulfilled by conventional*

their broader assortments and general merchandise at attractive prices. Full-line discount chains and extreme value retailers are increasing the amount of shelf space they devote to consumables. • Competitive pressure also comes from convenience stores who are selling more fresh merchandise. • Low cost competitors are especially challenging for conventional supermarkets because of their superior operating efficiencies. • To compete successfully with intrusions by other types of retailers, conventional supermarkets have taken steps to differentiate their offerings, such as emphasizing their "**power perimeters"** (areas around the outside walls with fresh perishables such as dairy, produce, florist, deli and bakery departments), targeting health conscious and ethnic consumers, providing a better in-store experience, and offering more private-label brands. • Conventional supermarkets are also offering more natural, organic, and fair trade foods for their increasingly health and environmentally conscious consumers. **Fair trade** means purchasing from factories that pay workers a living wage, well more than the prevailing minimum wage, and offer other benefits like onsite medical treatment. • Through adjustments to the traditional merchandise mix, conventional supermarkets are also targeting more ethnic shoppers. • Conventional supermarkets chains are leveraging their quality reputations to offer more private-label merchandise. Private-label brands benefit both customers and retailers. (Branding strategies are covered in depth in Chapter 14.) • The online grocery market also represents a growing category.	*supermarkets that can't be filled through other food retailing formats? Based on these discussions, will conventional supermarkets be driven out of business by competing formats?* *See PPT 2-27, 2-28 for coverage of Trends.*

• Creating an enjoyable shopping experience through wider variety, better store ambiance, and customer service is another approach supermarket chains may use to differentiate themselves from low-cost, low-service competitors. Some have begun to integrate "food as theater" concepts, such as cooking and nutrition classes and food tastings.	
B. Supercenters • **Supercenters** are the fastest growing retail category. At 150,000 to 220,000 square foot these stores offer a wide variety of food and non-food merchandise. The largest supercenters are Wal-Mart supercenters, Meijer, Kmart, Fred Meyer (a division of Kroger), and Target. • By offering broad assortments of grocery and general merchandise under one roof, supercenters provide a one-stop shopping experience. • However, since supercenters are very large, some customers find them inconvenient because it can take a long time to find the items they want. • **Hypermarkets** are also large (100,000 to 300,000 square feet) combination food and general merchandise retailers. They typically stock fewer SKUs than supercenters. • Popular in both Europe and South America, hypermarkets are not common in the United States. Located in large, warehouse-type structures with large parking facilities, hypermarkets typically carry a larger selection of food items than supercenters with a focus on perishables. • Supercenters place greater emphasis on general merchandise and dry grocery items such as breakfast cereals and canned goods. • Although supercenters and hypermarkets are the fastest growing categories in global retailing today, these retailers do face	*See PPT 2-29 for an illustration of the characteristics of supercenters and warehouse clubs.* *The supercenter is one of the fastest growing retail formats. Why is the supercenter more attractive than a hypermarket in the U.S., but not in Europe? What are benefits to consumers shopping in supercenters versus conventional supermarkets? What are the disadvantages?* *Where do students fall on the debate over the proliferation of supersize stores? Have any of their hometowns faced a battle over the building of a Wal-Mart or other supercenter? Ask students why they believe feelings run so deep on this particular retailing issue.*

challenges in finding and acquiring appropriate land for building (particularly in Europe and Japan), along with backlash against these supersize stores, particularly in the U.S.	
C. Warehouse Club • A **warehouse club** is a retailer that offers a limited and irregular assortment of food and general merchandise with little service at low prices to ultimate consumers and small businesses. • Stores are large (at least 100,000 to 150,000 square feet) and located in low rent districts. • Warehouse clubs reduce prices by using low-cost locations and inexpensive store designs, and offering little customer service. They reduce inventory holding costs by carrying a limited assortment of fast-selling items and buying merchandise opportunistically. • Most warehouse clubs have two types of members: wholesale members who own small-businesses and individual members who purchase for their own use. Typically members must pay an annual fee of approximately $50.	*See PPT 2-29 for an illustration of the characteristics of supercenters and warehouse clubs.* *Ask students to give local examples of warehouse clubs. What is the target market for warehouse clubs? (Consumers with larger families and small businesses.)* *Are warehouse clubs wholesalers or retailers? (When they sell to small businesses they are wholesalers. When they sell to individual members for personal or household use, they are retailers.*

D. Convenience Stores • **Convenience stores** provide a limited variety and assortment of merchandise at a convenient location in a 2,000-to-3,000-square-foot store with a speedy checkout, with higher prices than supermarkets. They are a modern version of the neighborhood mom-and-pop grocery/general store. • Convenience stores enable consumers to make purchases quickly without having to search through a large store and wait in long checkout lines. • Convenience stores are facing increasing competition from other retail formats, especially from supercenters and supermarket chains who have added gasoline to their merchandise offerings, offering tying gasoline sales to their frequent shopper programs. • In response to these competitive threats, convenience stores are taking steps to decrease their dependency on gasoline sales by tailoring their merchandise assortments to local markets, making their stores even more convenient to shop, and adding new services. • To increase convenience, some convenience stores are opening smaller stores close to where consumers shop and work. Others are exploring the use of technology to increase shopping convenience such as self-service kiosks.	*See PPT 2-30 for an overview of the characteristics of convenience stores* *Ask students to give examples of local convenience stores.* *Which products do they tend to buy most often at convenience stores?* *What do they like/dislike about them? In general, what is so "convenient" about convenience stores?* *What services do students believe would make a convenience store more "convenient"?*

III. General Merchandise Retailers • The major types of general merchandise retailers are department stores, full-line discount stores, specialty stores, category specialists, home improvement centers, off-price retailers, and extreme value retailers.	*See PPT 2-31, 2-32* *PPT 2-32 compares the various types of general merchandise retailers along several characteristics.*
A. Department Stores • **Department stores** are retailers that carry a broad variety and deep assortment, offer some customer services, and are organized into separate departments for displaying merchandise. • The largest department store chains in the U.S. are Macy's, Sears, JCPenney, and Kohl's, Nordstrom, Dillard's and Saks Fifth Avenue. • Today, most department stores focus almost exclusively on soft goods. The major departments are women's, men's, and children's clothing and accessories; home furnishings; cosmetics; and kitchenware and small appliances. • Each department within the store has a specific selling space allocated to it as well as salespeople to assist customers, often resembling a collection of specialty shops. • Department store chains can be categorized into three tiers: (1) upscale, high fashion chains with exclusive designer merchandise and excellent customer service (Neiman Marcus, Nordstrom); (2) traditional chains with more moderately priced merchandise and less customer service (Macy's and Dillard's); and (2) value-oriented chains catering to price-conscious consumers (Kohl's and JCPenney). • Today many customers question the benefits of shopping at department stores due to: (1) lack of convenient locations, (2) decreases in customer service and (3) relatively high prices.	*See PPT 2-33, 2-34, 2-35* *Ask students to give examples of local department stores. Why do customers go to department stores? What do they like/dislike about them?* *Ask students to give local examples of specialty stores. What are the differences between specialty stores, department stores, and discount stores? Where do students buy business suits, dresses, jeans, computers, electronics? Why do they go to that type of store?* *Which department store tier do students prefer? Which tier do they shop most often? Discuss differences in these responses.*

B. Full-Line Discount Stores • A **full-line discount store** is a retailer that offers a broad variety of merchandise, limited service, and low prices. They offer both private and national brands. • The big three full-line discount store chains are Wal-Mart, Target and Kmart. • A significant trend in this sector is Wal-Mart's conversion of discount stores to supercenters as a result of increased competition faced by the full-line discount stores, as well as the significant operating efficiencies realized by supercenters. • As Wal-Mart closes its full-line stores, Target is becoming one of the most successful retailers in terms of sales growth and profitability, succeeding because its stores offer fashionable merchandise at low prices in a pleasant shopping environment.	*See PPT 2-36* *Discuss the target markets of the three largest full-line discount store chains (Wal-Mart, Target and Kmart). How will the category specialists (Toys R Us) affect the retail strategy of full-line discount store chains? What about Internet only retailers? Are discount stores going to succeed in the "clicks" environment?* *In general, what are the factors that contribute to the success of discount stores despite increasing competition from other formats?*
C. Specialty Stores • A **specialty store** concentrates on a limited number of complementary merchandise categories and provides a high level of service in a relatively small store. • Specialty stores tailor their retail strategy toward very specific market segments by offering deep but narrow assortments and sales associate expertise. • Today, competitors from other countries also are making some of the most successful specialty stores in the U.S. rethink how they satisfy their customers' needs. For instance, Zara and H&M have introduced "fast fashion" to the U.S. market. Fast fashion is cheap and chic offering new, fresh merchandise 2-3 times per week.	*See PPT 2-37, 2-38* *Why do customers go to specialty stores? What do they like/dislike about them?* *Specialty stores tailor their retail strategy toward a very specific market segment. One specialty retailer, Hot Topics, focuses on selling licensed, music- inspired apparel to teenagers in mall-based stores. Ask students what retail strategy elements must be in place for a retailer like Hot Topics to remain successful.* *Discuss the "fast fashion" specialty store model with students. Which of these stores have they visited? What do they like/dislike about the concept? Ask which target market(s) this concept is best suited for.*
D. Drugstores • **Drugstores** are specialty stores that concentrate on health and personal grooming	*See PPT 2-39* *Ask students if they have shopped online for drugstore products. What has been their experience? Do they think the Internet is a viable*

merchandise. Pharmaceuticals often represent 50 percent of drugstore sales and an even greater percentage of their profits. • Drug stores, particularly the national chains, are experiencing sustained sales growth because the aging population requires more prescription drugs. Prescription pharmaceutical margins are shrinking due to governmental health care policies and HMOs. • Drugstores are also being squeezed by competition from pharmacies in discount stores and supermarkets, as well as prescription mail-order retailers. • In response, drug store chains are building larger stand-alone stores offering a wider assortment of merchandise, more frequently purchased food items, and drive-through windows for picking up prescriptions. Also, drugstore retailers are encouraging pharmacists to take the time to provide personalized service.	*channel for drugstore merchandise?*
E. Category Specialist • A **category specialist** is a big box discount store that offers a narrow variety but deep assortment of merchandise. These retailers predominantly use a self-service approach, but they offer assistance to customers in some areas of the store. • By offering a complete assortment in a category at low prices, category specialists can "kill" a category of merchandise for other retailers and thus are frequently called **category killers**. • Because category specialists dominate a category of merchandise, they can use their buying power to negotiate low prices, and assured supply when items are scarce. • One of the largest and most successful types of category specialist is the home improvement center. A **home improvement center** is a category specialist offering	*See PPT 2-40, 2-41* *Ask students to give local examples of category specialists. How are they similar to specialty stores? Discuss the differences and similarities with discount stores.* *Ask students to describe an experience at a home improvement center such as Home Depot in terms of merchandise, atmosphere and salesperson service. PPTs 2-42 and 2-43 illustrate the category specialist strategies of Home Depot and Lowe's.*

equipment and material used by do-it-yourselfers and contractors to make home improvements. • While merchandise in home-improvement centers is displayed in a warehouse atmosphere, salespeople are available to assist customers in selecting merchandise and to tell them how to use it. • Competition between specialists in each category is very intense (Staples vs. Office Depot; Home Depot vs. Lowe's) as firms expand into the regions originally dominated by another firm. Direct competition focuses on price, resulting in reduced profits because the competitors have difficulty differentiating themselves on other elements of the retail mix. • In response to this increasing competitive intensity, the category killers continue to concentrate on reducing costs by increasing operating efficiency and acquiring smaller chains to gain scale economies, although some category killers, like Home Depot and Lowe's are attempting to differentiate themselves with service through licensed contractors.	
F. Extreme Value Retailers • **Extreme value retailers**, such as Family Dollar Stores and Dollar General, **are** small, full-line discount stores that offer a limited merchandise assortment at very low prices. • By offering limited assortments and operating in low-rent locations, extreme value retailers are able to reduce costs and maintain very low prices. • Despite some of these chains' names, few just sell merchandise for $1. Rather, the names imply a good value but do not limit prices to the arbitrary dollar price point. • The growing popularity of extreme value retailers has led some vendors to agree to	*See PPT 2-44 for a summary of issues facing extreme value retailers.* *Ask students to name the extreme value retailers in the local marketplace. How many have shopped at one of them? For what types of merchandise? What is the primary appeal of these retailers?*

create special, smaller packages just for them. • Once considered low-status retailers catering to low-income consumers, extreme value retailers have broadened their appeal to higher-income consumers by offering exciting bargains and unique merchandise.	
G. Off-Price Retailers • **Off-price retailers,** also known as **close-out retailers**, offer an inconsistent assortment of brand name merchandise at low prices. • Off price retailers can sell brand name and even designer-label merchandise at low prices due to their unique buying and merchandising practices. Most merchandise is bought opportunistically from manufacturers or other retailers with excess inventory at the end of the season. • End of season merchandise that will not be used in following seasons is called **close-outs**. The merchandise may be in odd sizes or unpopular colors or styles, or it may be **irregulars**, merchandise that has minor mistakes in construction. • Typically, merchandise is purchased at one-fifth to one-fourth of the original wholesale price. Off-price retailers can buy at low prices because they don't ask suppliers for advertising allowances, return privileges, markdown adjustments, or delayed payments. • Due to this pattern of opportunistic buying, customers can't be confident that the same type of merchandise will be in stock each time they visit the store. • **Outlet stores** are off-price retailers owned by manufacturers, or by department or specialty store chains. • Outlet stores owned by manufacturers are frequently referred to as **factory outlets**. • Manufacturers view outlet stores as an	*Ask students to give examples of local off-price retailers. What do consumers like about off-price retailers? What don't they like?* *See PPT 2-45 for a summary of the issues facing off-price retailers* *Ask students which type of off-price retailer offers consumers truly the best value? Why?*

opportunity to improve their revenues from irregulars, production overruns, and merchandise returned by retailers. Outlet stores also allow manufacturers some control over where their branded merchandise is sold at discount prices.	
IV. Nonstore Retailers • The major nonstore retailing channels are the Internet, catalogs and direct mail, direct selling, television home shopping, and vending machines.	*See PPT 2-46.* *Ask students to think about their most recent purchase of a product through the Internet, a catalog or cable TV network. Engage in a discussion of the types of products bought most often through these formats.*
A. Electronic Retailers • **Electronic Retailing** (also called e-tailing, online retailing and Internet Retailing) is a retail format in which the retailers communicate with customers and offer products and services for sale over the Internet. • In today's marketplace, the Internet is primarily used by traditional retailers as a tool to complement their store and catalog offerings and to provide additional value to customers. • It is interesting to note that two of the most prominent Internet "retailers", Amazon.com and eBay, are not pure retailers. A majority of Amazon's revenues are generated through sales of its Web site development and fulfillment services to other retailers, while eBay is not directly involved in transactions between buyers and sellers.	*See PPT 2-47* *Engage students in a discussion of which types of consumers would or would not prefer to shop through the Internet. Focus the discussion on types of merchandise, services, risks involved, etc.* *See PPT 2-48 for a discussion of Amazon.com and eBay.*
B. Catalog and Direct-Mail Retailers • **Catalog retailing** is a nonstore retail format in which the retail offering is communicated to a customer through a catalog. • **Direct-mail retailers** communicate with their customers using letters and brochures. • With the growth of two-income and single-head-of-household families, consumers have found catalogs to be a convenient and time-	*See PPT 2-49*

saving shopping alternative. About half of U.S. consumers shop through catalogs. • Merchandise categories with the greatest catalog sales are apparel, gifts, books/music/videos, home décor, and toys/games.	
1. Types of Catalog and Direct-Mail Retailers • Two types of firms selling products through the mail are (1) general merchandise and specialty catalog retailers and (2) direct mail retailers. • **General merchandise catalog retailers** offer a broad variety of merchandise in their catalogs that are periodically mailed to their customers (e.g., JCPenney). • **Specialty catalog retailers** focus on specific categories of merchandise, such as fruit (Harry and David), gardening tools (Smith & Hawken), and seeds and plants (Burpee).	*Ask students about products they or someone in their household usually purchase through a catalog. Do they think there is a good on-going relationship between the catalog marketer and the consumer? What are the benefits and/or disadvantages in buying through catalogs?* *Ask students which catalogs and direct mail pieces they receive. Are they concerned with the environmental impacts of these pieces of mail? What are the types of catalogs and direct-mail letter that they would simply discard as "junk mail?" Why?*
C. Direct Selling • **Direct selling** is a retail format in which a salesperson, frequently an independent businessperson, contacts a customer directly in a convenient location, either at the customer's home or at work, and demonstrates merchandise benefits, takes an order, and delivers the merchandise to the customers. • Direct selling is a highly interactive form of retailing in which considerable information is conveyed to customers through face-to-face discussions with a salesperson. However, providing this high level of information, including extensive demonstration, is costly. • Two types of direct selling are **party plan** and **multilevel selling**. • In a **party plan system**, salespeople	*See PPT 2-50* *Ask students if they have experienced direct selling, either the party plan system (e.g., Tupperware) or multilevel selling (e.g., Amway) and have them describe their experiences.* *What ethical issues do students find in the direct selling category?*

encourage customers to act as hosts and invite friends or co-workers to a "party" at which the merchandise is demonstrated in a party-like atmosphere. The host or hostess receives a commission for arranging the meeting. • In a **multilevel network**, people serve as master distributors, recruiting other people to become distributors in their network. The master distributors either buy merchandise from the firm and resell it to their distributors or receive a commission on all merchandise purchased by the distributors in their network. • Some multilevel direct selling firms are illegal pyramid schemes. A **pyramid scheme** develops when the firm and its program are designed to sell merchandise and services to other distributors rather than to end users. The founders and initial distributors in pyramid schemes profit from the inventory bought by later participants but little merchandise is sold to consumers who use it.	
D. Television Home Shopping • **Television home shopping**, also known as **T-commerce** or **teleshopping**, is a retail format in which customers watch a TV program demonstrating merchandise and then place orders for the merchandise by telephone. The three forms of electronic home shopping retailing are: (1) **dedicated cable channels**, (2) **infomercials** (TV programs, typically 30 minutes long), and (3) **direct-response advertising** (advertisements on TV and radio that describe products and provide and opportunity for consumers to order them). • The major advantage of TV home shopping compared to catalog retailing is that consumers can see the merchandise demonstrated on the TV screen. • However, consumers can't examine a	*See PPT 2-51* *Ask students if they have bought anything in response through cable TV advertisements, infomercials or through direct-response advertisements. What types of merchandise are usually bought through these formats? Why are these formats more appropriate for such merchandise?*

particular type of merchandise or a specific item when they want to, as they can with catalogs.	
E. Vending Machine Retailing • **Vending machine retailing** is a nonstore format in which merchandise or services are stored in a machine and dispensed to customers when they deposit cash or use a credit card. Vending machines are placed at convenient, high-traffic locations such as in the workplace or on university campuses and primarily contain snacks or drinks. • Vending machine sales growth has been declining during the past few years as sales of many popular vending machine products (sodas, candy and snacks) are adversely affected by growing concerns among consumers about healthy eating habits. • Today, popular new vending machine applications are emerging in the entertainment industry including DVD rentals and music downloads.	*See PPT 2-52* *Ask students about the types of products they would like to see offered through convenient vending machines. Explore the current limitations (regulatory or technological) due to which such products are not currently offered through vending machines.*
VI. Services Retailing • **Services retailers** are firms that primarily sell services rather than merchandise and are a large and growing part of the retail industry. • Trends contributing to the growth of services retailing include: aging population, younger people spending more time and money on health and fitness, and parents in two-income families requiring household services. • Many organizations such as banks, hospitals, health spas, doctors, legal clinics, entertainment firms, and universities that offer services to consumers traditionally haven't considered themselves as retailers. Due to increased competition, these organizations are adopting retailing principles to attract customers and satisfy their needs. • All retailers provide goods and services for	*See PPT 2-53, 2-54, 2-55* *Ask students to give examples of service retailers. What is an example of a services retailer with a broad variety? Narrow variety? Deep assortment? Shallow assortment?* *Compare the elements in the retail mix -- location, assortment, pricing, promotion, visual merchandising and customer services -- in merchandise and services retailers. How are they the same and how are they different?*

their customers. However, the emphasis placed on the merchandise versus the services differs across retail formats. Supermarkets and warehouse clubs consist of self-service stores that offer very few services. Optical centers and restaurants lie somewhere in the middle of the merchandise /service continuum. Retailers whose offering is primarily services include airlines and banks.	*PPT 2-56 provides a merchandise/service continuum that can be used for discussion.*
A. Differences between Services and Merchandise Retailers • Four important differences in the nature of the offering provided by services and merchandise retailers are: (1) intangibility, (2) simultaneous production and consumption, (3) perishability, and (4) inconsistency of the offering to customers.	
1. Intangibility • Services are generally intangible -- customers cannot see, touch, or feel them. Services are performances or actions rather than objects. • Intangibility introduces a number of challenges for services retailers. It is difficult for customers to evaluate services before they buy them, or even after they buy and consume them. Services retailers often use tangible symbols to inform customers about the quality of their services. • Services retailers also have difficulty in evaluating the quality of services they are providing. To evaluate the quality of their offering, services retailers place emphasis on soliciting customer evaluations and complaints.	*Ask students how customers can evaluate the quality of an intangible service offering. What problems does intangibility cause for the services retailer?*
2. Simultaneous Production and Consumption • Service providers create and deliver the service as the customer is consuming it. The simultaneity of production and consumption creates some special problems for services retailers.	*What problems does simultaneous production cause for the services retailer?*

• First, the customers are present when the service is produced, may have an opportunity to see it produced, and in some cases, may be part of the production process. • Other customers consuming the service at the same time can affect the quality of the service provided. • Finally, the services retailer often does not get a second chance to satisfy the needs of their customers. While customers can return damaged merchandise to a store, customers that are dissatisfied with services have limited recourse. Thus it is critical for services retailers to get it right the first time. • Because services are produced and consumed at the same time, it is difficult to reduce costs through mass production.	
3. Perishability • Because the creation and consumption of services is inseparable, services are perishable. They can't be saved, stored, or resold. This is in contrast to merchandise, which can be held in inventory until a customer is ready to buy it. • In addition, the demand for a service varies considerably over time. Thus, services retailers often have times when their services are underutilized and other times when they have to turn customers away because they can not accommodate them. • Services retailers use a variety of programs to match demand and supply. They also attempt to make customer waiting time more enjoyable.	*Give examples of retailers for which perishability is a real problem? [movie theaters, airlines, cruise lines, public golf courses] What do these retailers do to minimize the problem?* *What actions have students seen services retailer take to make waiting time more enjoyable for customers?*
4. Inconsistency • Merchandise is often produced by machines with very tight quality control. Because services are performed by people, no two services will be identical.	*What problems does inconsistency cause for the services retailer? Are there services retailers whose inconsistency is acceptable? (Custom designers, hair "artists")*

• Thus, an important challenge for service retailers is providing consistently high-quality services.	
VII. Types of Ownership • Another way to classify retailers is by their ownership. The major classifications of retail ownership are: (1) independent, single-store establishments, (2) corporate chains, and (3) franchises.	*See PPT 2-57* .
A. Independent, Single-Store Establishments • Retailing is one of the few sectors in our economy in which entrepreneurial activity is extensive. Many of these retail start-ups are owner managed which means management has direct contact with their customers and can respond quickly to those customers' needs. • While single-store retailers can tailor their offering to their customers' needs, corporate chains can more effectively negotiate lower prices for merchandise and advertising due to their larger size. • To better compete against corporate chains, some independent retailers join a wholesale-sponsored voluntary chain. A **wholesale-sponsored voluntary cooperative group** is an organization operated by a wholesaler offering a merchandising program to small, independent retailers on a voluntary basis.	*Ask students to give examples of local independent, single-store retailers. Do they shop at independents? Why or why not?* *Do students believe national chains will drive all independents out of business?*
B. Corporate Retail Chains • A **retail chain** is a company operating multiple retail units under common ownership and usually having some centralization of decision making in defining and implementing its strategy.	*Wal-Mart has pursued a strategy of opening stores on the outskirts of small rural towns with populations between 25,000 and 50,000. These stores offer broader selection of merchandise at much lower prices than previously available from local retailers. Discuss the pros and cons of this strategy in class. What ramifications may result? (Monopolizing market, demise of small stores, potential to become major employer in rural area).*
C. Franchising	*Ask students to give examples of local franchises. If they wanted to own a retail business, would they*

• **Franchising** is a contractual agreement between a franchisor and a franchisee that allows the franchisee to operate a retail outlet using a name and format developed and supported by the franchisor. Approximately 40% of all US retail sales are made by franchisees. • In a franchise contract, the franchisee pays a lump sum plus a royalty on all sales for the right to operate a store in a specific location. The franchisee also agrees to operate the outlet as per the procedures prescribed by the franchisor. The franchisor provides assistance in locating and building the store, developing the products and/or services sold, management training, and advertising. • The franchise ownership format attempts to combine the advantages of owner-managed businesses with efficiencies of centralized decision-making in chain store operations.	*want a franchise or their own store? Why? What are the advantages of being a franchisee?* *PPT 2-58provides a brief introduction to the Franchising form of retail ownership. For a more detailed discussion on Franchising, see Ancillary Lecture 2-1 at the end of this chapter. PPT 2-59 through 2-67 may be used with the Ancillary Lecture.*
VIII. Summary • Over the past 30 years, U.S. retail markets have been characterized by the emergence of many new retail institutions. Traditional institutions have been joined by category specialists, hypermarkets and superstores, extreme value retailers, and nonstore retailers among others.	
IX. Appendix 2A: Comparison Shopping • All retailers learn about their competitors through comparison shopping. It might be as informal as walking through a competitor's store and looking around. However, a structured analysis is more helpful in developing a retail offering that will attract consumers from a competitor's store. • The first step is to define the scope of the comparison; the comparison might be between two retail chains, two specific stores, two departments, or two categories of merchandise, depending on responsibilities of the person undertaking the comparison.	*For an exercise on comparison shopping see Ancillary Exercise 2-2. Breaking the class into groups and having each group do a comparison shopping exercise is a good way to get students to understand the difference between retailers and the types of decisions retail manager make. Have each group compare different institutions selling the same merchandise category. For example, men's suits in a department store and men's specialty store, athletic shoes in a discount store and specialty shoe store, CD's in a discount store and a specialty music store.*

• Comparisons might also focus on chains' financial resources, inventory levels, number of stores and employees, store locations, merchandise sold, employee compensation programs, and return policies.	

ANSWERS TO SELECTED "GET OUT AND DO ITS"

4. INTERNET EXERCISE Data on U.S. retail sales are available at the U.S. Bureau of the Census Internet site at www.census.gov/mrts/www/mrts.html. Look at the unadjusted monthly sales by NAICS. Which categories of retailers have the largest percentage of sales in the fourth quarter (the holiday season)?

Students will notice that many retail categories generate their largest percentage of sales in the fourth quarter. Some 2007 examples (in $millions) are:
(443) Electronics and Appliance Stores: 34,764
(44312) Computer and Software Stores: 6,698
(4453) Beer, Wine and Liquor Stores: 11,289
(44812) Women's Clothing Stores: 11, 913
(45111) Sporting Goods Stores: 10,355
(454) Nonstore Retailers: 87,696

6. INTERNET EXERCISE Go to *Entrepreneur Magazine*'s Franchise Zone web page at http://www.entrepreneur.com/franchise500 and list the top 500 franchises for the past year. How many of these retailers in the Top Ten have you patronized as a customer? Did you know that they were operated as a franchise? Look at the list for previous years to see changes in the rankings. Click on the link, About the Franchise 500, and describe what factors were used to develop the list. Finally, what is the nature of the business that seems to lend itself to franchising?

The Top 10 Franchises for 2008 include many familiar names. Students will likely report having visited a Subway, McDonald's, Sonic, or 7-Eleven. Students should uncover some notable changes in the Top 10. Perhaps most significant, Subway has been moved into the number 2 spot after many years at number 1. An interesting point for discussion of competitive strategy is the reintroduction of fast food retailers like McDonald's and KFC to the top 10, as well as the new entrance of Sonic. What do students believe are behind the reinvigoration of these fast food franchise retailers? Will they be able to maintain these positions in the face of changing trends in consumer lifestyles and food retailing?

The web site notes that the list of the Top 500 franchises is based on quantifiable measures such as financial strength and stability, growth rate, size of the system, and number of years in business. Students will likely notice that service-based retailers tend to lend themselves best to the franchise system, particularly those services that allow for standardization of business practices and retail operating formats.

ANSWERS TO DISCUSSION QUESTIONS AND PROBLEMS

1. Distinguish between variety and assortment. Why are these important elements of retail market structure?

The main difference between variety and assortment is that variety refers to the number of different merchandise categories a retailer sells, whereas assortment is the number of different items or SKUs in a merchandise category. In addition, variety is often referred to as the breadth of merchandise carried by the retailer, and assortment is referred to as the depth of merchandise. These elements form an integral part of the retail market structure, since it is the retail offering that ultimately distinguishes one retailer from another.

2. Choose a small, independent retailer and explain how it can compete against a large national chain.

It is very difficult for independents to compete against chains on price. Corporate chains can buy merchandise at lower cost because they buy in large quantities. Thus, they can offer the same merchandise at lower prices than independents.

However, chains also tend to have the same merchandise in all stores. Thus independents can compete effectively against chains by offering merchandise that is tailored to the needs of the local community.

In addition, chains are often very bureaucratic. They have a lot of rules, which constrain the nature of the service that can be provided to customers. In addition, store managers in chains often move from store to store or they are promoted to higher-level management positions. Therefore, they have less opportunity to develop long-term relationships with customers.

Independents can compete by offering better service—by developing personal relationships with local customers.

3. What do off-price retailers need to do to compete against other formats in the future?

The main competitive weapon for the off-price retailers is their low price. While they may not directly compete with higher service formats, such as department and specialty stores, they do face increasing competition from discount stores. Here, the off-price stores may be at a relative disadvantage since their merchandise is based upon opportunistic buying, while discount stores offer a relatively stable mix of merchandise at stable prices (everyday low pricing).

Since the option of improving service may increase costs and weaken their only source of competitive advantage, low price, off-price retailers should focus on strategies to keep their costs and prices low and explore low cost methods of attracting and retaining customers. In terms of keeping operational costs low, they can locate in lower cost urban and rural areas (note that outlet stores are more clustered within outlet malls located farther from the city but near major highways). They can also implement more efficient inventory and merchandise management systems (note that for a discount store, such as Wal-Mart, operational efficiency and costs reductions are crucial to offering lower prices to customers). Also, they can expand their sourcing to include imports from low cost international markets.

Another threat for off-price retailers may be from Internet stores. Often several stores publicize their low prices and also attempt to match consumer price preferences through reverse bidding and auctions (sites such as Priceline and eBay). Off-price retailers can explore the possibility of using the Internet for relatively low cost advertising about current merchandises (since their merchandise stocks fluctuate more rapidly due to opportunistic buying). Factory outlet stores, on the other hand, can compete more directly over the Internet.

4. Compare and contrast the retail mixes of convenience stores, traditional supermarkets, superstores, and warehouse stores. Can all of these food retail institutions survive over the long run? How? Why?

Element of Retail Mix	Convenience Store	Traditional Supermarket	Superstore	Warehouse Store
Location	Typically freestanding, easily accessible sites	Typically in strip shopping centers	Typically in strip shopping centers	Typically in strip shopping centers
Merchandise Assortment	Limited variety and assortment	Average variety and assortment	Greater variety with deeper assortment than supermarket	Greater variety with about the same assortment as supermarket. Primary difference is that merchandise assortment varies because of opportunistic buying.
Pricing	Higher pricing than supermarkets	Average pricing. Some chains have constant (every day) pricing and others have special sale (high-low) pricing.	Lower pricing than supermarkets. Typical every day pricing.	Lower pricing than supermarkets. Pricing depends on cost of merchandise bought on special buys.
Advertising and Promotion Personal selling	Limited advertising, frequent shopper programs tied to gasoline sales. Minimal	High-low pricing chains advertise weekly specials. Minimal	Limited advertising since most have everyday pricing. Minimal	Minimal promotion since all merchandise is basically on sale. Minimal
Store design and display	Designed for quick and easy merchandise selection and checkout	Typically use a grid-iron with cross-hatch aisles, extensive signs.	Same as supermarket.	Same as supermarket. A bit more disorganized to give the customers the feel of searching for a bargain.
Service	Minimal	Some services for produce, bakery, meat and fish categories.	Some services for produce, bakery, meat and fish areas.	Minimal

All four types will persist because they appeal to different customer needs. The warehouse stores typically have larger pack sizes that are very attractive to customers with large families and to small business owners like local restaurants. In addition, due to the varying assortments, customers who are brand loyal might not want to shop in these stores.

Convenience stores are located and designed to offer customers a snack, quick meal or minimal grocery/general merchandise purchase along with their gasoline. These retailers offer easy in and out access and speedy transactions. In response to competitive pressures from other food retailers, as well as dependency on gasoline sales, many convenience stores are now offering consumers fresh food and healthy fast food choices to reduce dependency on fuel sales while maintaining on-the-go ease and convenience.

The superstores are low in price but more inconvenient to shop in because of the large size. Thus they appeal to customers who are very price conscious and are willing to drive a longer distance and spend more time shopping in a larger store.

Conventional supermarkets are the most convenient. In major metro areas, there is a conventional supermarket two to three miles from everyone's home. They also provide more services for customers such as cutting meat to order. Conventional supermarkets appeal to customers who value service and convenience and are not as price conscious.

Note that the same consumer may shop at all four types of food retailers depending on the nature of the shopping trip. For example, a consumer might stock up on basic such as toilet paper, soft drinks, and can goods at a warehouse or superstore and then go to a supermarket to buy meat, produce, and gourmet food.

5. Why are retailers in the limited assortment supermarket and extreme value discount store sectors growing so rapidly?

Both limited assortment supermarkets and extreme value discount stores focus on relatively limited merchandise offerings at highly appealing (low!) prices. The retail formats are able to offer their extremely low prices through maximizing efficiency. By reducing extras and service offerings, as well as managing a relatively low merchandise assortment, these retailers are able to provide consumers with the "thrill of the hunt" for amazing deals.

6. The same brand and model personal computer is sold in specialty computer stores, discount stores, category specialists, and warehouse stores. Why would a customer choose one store over another?

Each type of retail store provides a unique combination of price and services tailored to the needs of different types of customers. The specialty store typically will have higher prices, but will offer more services. It will have salespeople with technical expertise available to provide information to customers and answer questions. This service is particularly valuable to customers who do not know much about computers.

On the other hand, discount stores, category specialists, and warehouse stores have lower prices and do not offer much personalized service. These stores are more attractive to customers who have more expertise and do not need personalized service.

Due to the greater assortment in category specialists, customers are able to compare the prices and features of different brands in one store visit. Warehouse and discount stores have limited assortments and thus customers can only see a limited set of brands and models. But they can also buy merchandise in different product categories at the same time they are buying a computer.

7. Choose a product category that both you and your parents purchase (e.g., business clothing, casual clothing, music, electronic equipment, shampoo). In which type of store do you typically purchase this merchandise? What about your parents? Explain why there is (and is not) a difference in your store choices.

Students may emphasize specialty stores such as The Gap, Old Navy, Circuit City, Best Buy etc. for their purchases for clothing, CDs, or electronic equipment, while mentioning that their parents favor traditional department stores such as Macy's or Sears for the purchase of such product categories. If price is a major factor, there may be some similarities between the students and their parents; both may shop at discount stores.

The merchandise, service and prices for the various retail formats stocking different product categories are different. In general, stores deliberately targeting a younger population will be favored by students since these stores would better match their expectations of merchandise (such as fashion clothing), prices and services (students may consider themselves savvy customers for certain products, such as music and electronic equipment, and may not need the type of service demanded by their parents for instance in purchasing business clothing).

8. At many optical stores you can get your eyes checked and purchase glasses or contact lenses. How is the shopping experience different for the service as compared to the product? Design a strategy designed to get customers to purchase both the service and the product. In so doing, delineate specific actions that should be taken to acquire and retain optical customers.

Optical stores present an interesting mix of service and related merchandise. On one hand, the eye examination is usually done by a trained and licensed eye doctor and here the service experience is often very professional and similar to a visit to any physician or hospital. On the other hand, the glasses or contact lenses are displayed in a retail store setting with the service being mostly oriented towards helping the customer try out various options. The contrasts between the service and retail environments may be unnerving for some customers.

One strategy to reduce the gap is to ensure that the retail setting is very professional and courteous. Since the problem has been detected and identified by the eye doctor, the sales staff in the retail setting could engage and interact more directly with the customer with more of a problem-solving approach.   This would involve educating consumers on various issues, including the merits/demerits of using glasses or contact lenses, the types of lenses and coatings, proper care of glasses and contact lenses, etc.

It must also be recognized that most customers who are prescribed glasses for the first time are likely to continue wearing glasses or contact lenses for the rest of their lives. Thus, it is important to start building consumer trust and confidence through professional service and expertise. One strategy would be to encourage customers to return for an eye examination every year and also have their current prescription for the glasses or lenses checked. Another is to provide free repair service for the frames.

9. Which of the store-based retail formats discussed in this chapter is most vulnerable to competition from the Internet retailers? Why? Which is least vulnerable? Why?

Over the Internet, consumers can easily compare the prices of standardized and branded products. Also, in several cases (such as for books, music, software, and travel), the convenience of searching over the Internet for various products is higher than physical comparison shopping. However, Internet shopping also suffers from various risks and disadvantages. Shoppers may not feel comfortable in providing their credit card and other information over the Internet. Also, buying over the Internet may add to the delivered price for the consumer, especially when considering shipping and handling costs. Moreover, Internet buying also involves delayed gratification, i.e., consumers would have to await delivery of the products they purchased. There is also the added disadvantage of not being able to try out a product (such as clothing) or seeing a demonstration (such as the working of a stereo system).

Category specialists that deal in product categories, such as books, CDs, DVDs, software, computer hardware, travel reservations, etc. are most vulnerable to competition from the Internet, since the Internet provides consumers with greater convenience of shopping for a needed product from home and also better price comparison across various retailers. On the other hand, category specialists that provide superior service and consumer information, such as fashion goods retailers, may be less vulnerable to Internet competition. Of course, the least vulnerable will be the service retailers who provide services to consumers that require either the consumer's or their product's presence (such as a haircut or car repair).

10. Many experts believe that customer service is one of retailers' most important issues in the new millennium. How can retailers that emphasize low price (such as discount stores, category specialists, and off-price retailers) improve customer service without increasing costs and thus, prices?

It is very difficult to offer high-quality, personalized customer service at a low cost, because personalized service is provided by people who have to be paid more. Price-oriented retailers provide service by using signage to make it easy for customers to locate products, having many checkout counters so customers can pay for merchandise quickly, and using displays to demonstrate the use of merchandise and information about the merchandise. These store layout and display activities do not require people, but they make it easier for customers to buy merchandise.

Personalized service from employees can be provided economically by having a centralized place in the store where experts are available to answer questions. Rather than have a lot of employees circulating throughout the store, a smaller number of employees can be in one central location. However, customers will have to come to the service providers rather than the service providers going to the customers.

ANCILLARY LECTURES

LECTURE # 2-1: FRANCHISING

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Instructor's Note: Franchising is one of the most popular and successful ways for individuals to start their own business. The growth in franchising as a retail format will probably continue in the near future. Many students who take a retailing course have intentions of someday starting their own business and this lecture may provide them with an interesting possibility to consider. Instructors might want to use this lecture as a stimulus to a class discussion on the topic. PowerPoint slides 2-59 to 2-67 can be used with this lecture.

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Introduction

Franchising is the licensing of an ENTIRE business format by a parent company (FRANCHISOR) to a number of outlets (FRANCHISEES) to market a product or service and engage in a business developed by the FRANCHISOR using the FRANCHISOR'S trade names, trademarks, know-how, and methods of doing business.

In 1985, sales of goods and services by all franchising companies exceeded $529 billion, approximately 33 percent of all U.S. retail sales flow.

There are roughly half a million establishments in franchise-related businesses.

The growth of franchising

Franchising has had a steady stream of growth. Some of the reasons include

1. Technological advances,
2. Profitable utilization of capital resources,
3. Attainment of the American dream,
4. Demographic expansion, and
5. Product/service consistency.

Technological advances

Equipment and systems--reduce product variability and more efficient marketing and distribution systems.

For example: Electronic Data interchange.

Profitable utilization of capital resources

Can tap savings and credit capacity of individuals to realize national product/service saturation

Attainment of the American dream

Owning your own business.

Demographic expansion

Urban “sprawl” creates need for more small retail establishments.

No-longer just downtown locations.

Product/service consistency

Due to geographic mobility, franchises have provided a level of homogeneous (boring) quality in its product or service.

For example: A Big Mac tastes the same everywhere.

Types of franchise systems

There are various types of franchise systems including

1. Territorial,
2. Operating,
3. Mobile,
4. Distributorship,
5. Co-ownership,
6. Co-management,
7. Leasing/Licensing,
8. Manufacturing, and
9. Service.

Territorial franchise

The franchise granted encompasses several counties or states.

The holder of the franchise assumes the responsibility for setting up and training individual franchisees within his territory and obtains an ‘override” on all sales in his territory.

For example: McDonalds and Burger King Regional franchises.

Operating franchise

The individual independent franchisee that runs his own franchise.

He deals either directly with the parent organization or with the territorial franchise holder.

For example: McDonalds and Burger King individual locations.

Mobile franchise

A franchise that dispenses its product from a moving vehicle, which is either owned by the franchisee or leased from the franchisor.

For example: Country Store on Wheels and Snap-On Tools.

Distributorship

The franchisee takes title to various goods and further distributes them to sub-franchisees.

The distributor has exclusive coverage of a wide geographical area and acts as a supply house for the franchisee that carries the product.

For example: Texaco gasoline supply centers.

Co-ownership

The franchisor and franchisee share the investment and profits.

For Example: Denny’s Restaurant.

Co-management

The franchisor controls the major part of the investment.

The partner-manager shares profits proportionately.

For example: Travelodge and Holiday Inn.

Leasing/Licensing

The franchisor leases/licenses the franchisee to use his trademarks and business techniques.

The franchisor either supplies the product or provides franchisees with a list of approved suppliers.

For example: Sheraton Hotels.

Manufacturing

The franchisor grants a franchise to manufacture its product through the use of specified materials and techniques.

The franchisee distributes the product, utilizing the franchisor’s techniques.

This method enables a national manufacturer to distribute regionally when distribution costs from central manufacturing facilities are prohibitive.

For example: Sealy.

Service

The franchisor describes patterns by which a franchisee supplies a professional service, as exemplified by employment agencies.

For example: Personnel One.

Why franchises fail

Individuals who are interested in franchising need to recognize that there is risk despite the high potential for success.

Franchises can fail for several reasons including

1. Inept management,
2. Fraudulent activities, and
3. Market saturation.

Inept management

Poor finances, product/service mix rejected, grew too quickly.

Fraudulent activities

The selling of unsound or unproven franchises to ignorant buyers, unfair contracts, etc.

Market saturation

Too many franchises of same type, e.g., chicken fast-food.

Franchisors and the marketing channel

A franchisor may occupy any position in the marketing channel.

Manufacturer-retailer franchise

Automobile dealers and service stations.

Manufacturer-wholesaler franchise

Coca-Cola, Pepsi, Seven-Up, etc. sell syrup they manufacture to franchised wholesalers who bottle and distribute to retailers.

Wholesalers-retailer franchise

Rexall Drugs and Sentry Drugs.

Service Sponsor--Retailer franchise

Avis, Hertz, and National, McDonald’s, Chicken Delight, KFC, Howard Johnson’s and Holiday Inn, Midas and AMCO, Kelly Girl and Manpower

Franchisor benefits

Franchisees (the store) provide benefits for the franchisor (the parent company).

Continuous market

Insured through consistent quantity and quality and strong promotion.

Market information

Information such as sales, local advertising, employee turnover, profits, etc. is usually provided.

Money

Principal sources of franchise company revenue.

Royalty fees

Royalties provide continuous income although often the rate may decrease as sales volume increase.

Sometimes a flat rate is established regardless of level of sales.

Sales of products

Often the franchisor supplies raw materials and finished products to the franchisee at a profit.

For example, Coke supplies syrup, Holiday Inn supplies furniture and carpeting.

Rental and lease fees

The franchisor may lease buildings, equipment, and fixtures.

License fees

There may be special fees that allow the franchisee to use and display the franchisor’s trademark.

Management fees

Franchisor can charge for consultant fees, management reports, training, etc.

Franchisee benefits

Franchisors provide benefits for the franchisee through initial and continuous services. .

Initial services

There are a number of initial services that franchisors provide for franchisees including

1. Market survey and site selection,
2. Facility design and layout,
3. Lease negotiation advice,
4. Financing advice,
5. Operating manuals,
6. Management training programs, and
7. Employee training.

Continuous Services

There are also a number of continuous services that franchisors offer to franchisees including

1. Field supervision,
2. Merchandising and promotional materials,
3. Management and employee retraining,
4. Quality inspection,
5. National advertising,
6. Centralized purchasing,
7. Market data and guidance,
8. Auditing and record keeping,
9. Management reports, and
10. Group insurance plans.

Franchisor advantages/disadvantages

Depending upon which viewpoint one takes (the franchisor or franchisee) there are many advantages and disadvantages of franchising.

From the perspective of the franchisor, the advantages include

1. Rapid expansion,
2. Highly motivated franchisees do a good job, and
3. Additional profits by selling franchisees products and services.

The disadvantages include

1. Company-owned units may be more profitable,
2. Less control than independent retailers over advertising, pricing, personnel practices, etc. (e.g., can't fire franchisee).

Franchisee advantages/disadvantages

From the viewpoint of the franchisee the advantages include

1. Established/proven product/service,
2. Business and technical assistance, and
3. Reduction in risk.

The disadvantages include

1. Loss of control -- are really only semi-independent business people,
2. Many franchisors own a number of their outlets which may compete with those owned by franchisees, and
3. High royalties, fees, costs of equipment, supplies, merchandise, rental or lease rates and mandatory participation in promo and support services.

Franchising trends for the New Millennium

Most of the growth of franchising occurred in the 1980s in the retailing of goods and services. However, there two basic types of franchising that merit consideration.

The first, product and trade franchising, a common form of retailing in the automobile and petroleum industry, focuses on what is sold.

Examples include brands like Ford, Honda, and Texaco.

The second, business format franchising, sells the right to operate the same business in different geographic locations.

The emphasis here is on how the business is run.

Examples include Kentucky Fried Chicken, McDonald's and Burger King.

The major franchising trends perceived for New Millennium are

1. Sustained growth,
2. Enduring plus unimagined applications,
3. International expansion,
4. Increased tensions, and
5. Greater emphasis on financial returns.

Sustained Growth

It is perceived that franchising will continue to grow steadily, a trend begun in the 1980s.

One of the possible explanations for this growth is that franchising offers franchisors rapid expansion as well as highly motivated owner-managers.

Also, annual growth in franchised sales volume will exceed the inflation rate by several percentage points.

Enduring plus unimagined applications

Today, such things like video yearbooks, house-sitting services, and house calls by doctors may be owned by franchises.

With the applications such as these, the possibilities are certainly diverse.

For example, in the future, franchisees will come from three main sources, which include middle managers, women, and independent small-business owners.

International expansion

Franchisors are currently exploring foreign markets.

In fact, in 1988 one-sixth of all business-format franchisors had businesses outside the United States.

In addition, this trend has also been reciprocated by foreign franchisors as well.

However, non-U.S. franchisors have had a more difficult time in the U. S. due to stiff competition.

Increasing tensions

Despite the overwhelming of franchisors on the whole, there is still a major source of contention.

That is, franchisor-franchisee relations have witnessed a rise in class-action suits and arbitration hearings.

In 1989, over 400 franchisee-related hearings were held.

Dissatisfaction among franchisees could originate from various sources.

First, perceived inequity among this group regarding mandated or proposed changes may be a major source of conflict.

Also unsatisfactory financial performance may be another cause of discord.

Greater emphasis on financial returns

The main sources of financial returns include: dual operations in which a franchisee may be permitted to run two or more franchises from a common or adjacent area; reduced costs due to downsizing; and incentives for ownership.

[Source: This lecture was adapted from Gerald Pintel and Jay Diamond, Retailing, 4th ed. (Englewood Cliffs, NJ.: Prentice-Hall, 1987), pp. 73-76. in El-Ansary and Stern's book, Marketing Channels, Prentice-Hall, 3rd. ed. , 1988, p. 333); Bruce J. Walker, "Retail Franchising in the 1990s," Retailing Issues Letter, Published by Arthur Andersen & co, in conjunction with the Center for Retailing Studies, Texas A&M University, Vol.; 3, No.1, January 1991, pp. 1-.]