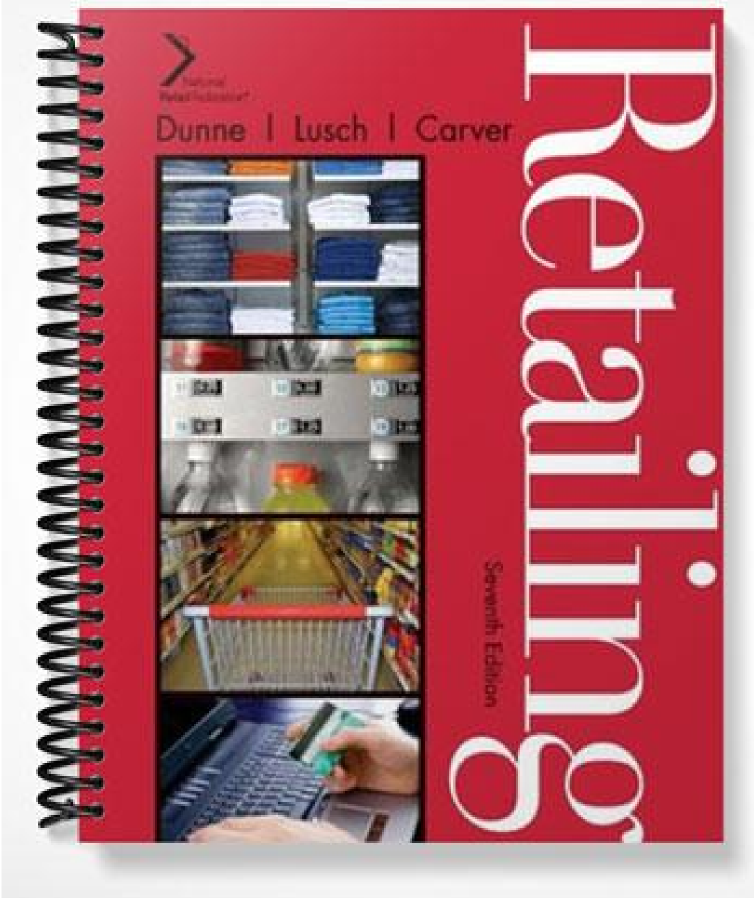
TEST BANK



CHAPTER 2—RETAIL STRATEGIC PLANNING AND OPERATIONS MANAGEMENT

MULTIPLE CHOICE

1. _____ is the anticipation and organization of what needs to be done to reach an objective.
   a. Analyzing
   b. Forecasting
   c. Planning
   d. Strategic realignment
   e. Tactical adaptation

   ANS: C PTS: 1 REF: p. 40 OBJ: LO 2-1

2. Potentially cannibalizing one's established businesses with the introduction of an e-tailing operation is a cost of:
   a. outshopping.
   b. nonstore shopping.
   c. bricks-and-mortar integration.
   d. same-store retailing
   e. bricks-and-click integration.

   ANS: E PTS: 1 REF: p. 41 OBJ: LO 2-1

3. Consider this mission statement: "Dad's Tasty Dogs will utilize the friendly, proven expertise of its employees and the finest ingredients to provide customers with great tasting hot dogs at a fair price." What element of a good mission statement is missing?
   a. How the retailer uses or intends to use its resources
   b. A market share goal
   c. How it expects to relate to the ever-changing environment
   d. The kinds of value it intends to provide in order to serve the needs and wants of the customer
   e. A SWOT analysis

   ANS: C PTS: 1 REF: p. 42 OBJ: LO 2-1

4. Strategic planning:
   a. requires a short-term commitment of resources by the retailer.
   b. is concerned with maximizing the efficiency of the retailer's use of resources and with how the retailer converts these resources into sales and profits.
   c. involves managing the buying and handling of merchandise, pricing, advertising and promotion, customer services and selling, and facilities.
   d. is concerned with how the retailer responds to the environment in an effort to establish a short-term course of action.
   e. involves adapting the resources of the firm to the opportunities and threats of an ever-changing retail environment.

   ANS: E PTS: 1 REF: p. 42 OBJ: LO 2-1

5. Although not written down as a mission statement, Walmart's clearly defined sense of direction is based upon Marshall Field's earlier directive to:
   a. "Beat the competition before they beat you."
   b. "Never be undersold."

c. "Give the lady what she wants."
d. "Always remember to have the right products on hand, otherwise we cannot be successful."
e. "Always have the lowest price on every item."

ANS: C PTS: 1 REF: p. 42 OBJ: LO 2-1

6. The beginning of a retailer's strategic planning process is the formulation of the retailer's:
a. goals and objectives.
b. opportunity analysis audit.
c. alpha statement.
d. mission statement.
e. strategy statement.

ANS: D PTS: 1 REF: p. 42 OBJ: LO 2-1

7. Identify the incorrect statement about mission statements.
a. The lack of a written statement is not a cause by itself for success/failure, but only if the firm has a clearly understood, written plan of action.
b. A mission statement can be short or long, as long as it provides direction for the future of the firm.
c. A mission statement is a basic description of the fundamental nature, rationale, and direction of the firm.
d. Mission statements vary from retailer to retailer.
e. Not every retailer has a mission statement.

ANS: A PTS: 1 REF: p. 42 OBJ: LO 2-1

8. For a mission statement to be effective, it should:
a. be less than 10 words; after all, the more concise the mission statement, the more focused the company.
b. provide a basic description of the fundamental nature, rationale, and direction of the firm.
c. be changed annually to reflect changes in the environment.
d. follow the strategy laid out annually by senior management.
e. be developed only after the retailer sets its goals and objectives.

ANS: B PTS: 1 REF: p. 42 OBJ: LO 2-1

9. After developing a mission statement, the next step in the strategic planning process is to:
a. develop action plans.
b. perform a SWOT analysis.
c. define specific goals and objectives.
d. carry out operations management tasks.
e. state the retailer's plan of action.

ANS: C PTS: 1 REF: p. 42 OBJ: LO 2-1

10. Which of the following is NOT an aspect of a good mission statement?
a. Broad and general in nature
b. Provide direction
c. Motivational
d. Target market-specific
e. It is a plan of action for the firm to follow

ANS: D PTS: 1 REF: p. 42-43 OBJ: LO 2-1

11. If a retailer is attempting to define "what business it is in," the retailer is developing a(n):
    a. SWOT analysis.
    b. strategy.
    c. objective review.
    d. performance audit.
    e. mission statement.

    ANS: E PTS: 1 REF: p. 43 OBJ: LO 2-1

12. When a retailer sets goals and objectives based on a comparison of its actions against its competitors, it is establishing:
    a. financial performance objectives.
    b. market performance objectives.
    c. personal objectives.
    d. competitive pricing objectives.
    e. societal objectives.

    ANS: B PTS: 1 REF: p. 44 OBJ: LO 2-1

13. Market share is a popular measure of which kind of objective?
    a. Financial performance
    b. Societal
    c. Market performance
    d. Competitive
    e. Personal

    ANS: C PTS: 1 REF: p. 44 OBJ: LO 2-1

14. A retail firm that is setting goals based on the analysis of its ability to provide a profit level adequate to continue in business is setting _____ objectives.
    a. liquidity
    b. financial performance
    c. profit performance
    d. market performance
    e. operating performance

    ANS: B PTS: 1 REF: p. 44 OBJ: LO 2-1

15. The four basic types of objectives that a retailer can formulate are:
    a. financial, gross margin return on sales, return on assets, and return on net worth.
    b. equity, benefactor, consumer choice, and employment.
    c. sales volume, market share, productivity, and profitability.
    d. societal, market performance, personal, and financial performance.
    e. marketing performance, profitability, productivity, and societal.

    ANS: D PTS: 1 REF: p. 44 OBJ: LO 2-1

16. Which of the following would be an example of a market performance objective for Record World?
    a. Open or acquire five to ten stores over the next year.
    b. Increase this year's net profit margin by 3 percent over last year.
    c. Improve public relations with customers by holding two major in-store events per six-month season.
    d. Increase labor productivity by 12 percent over the next six months.
    e. Increase return on assets from 12 percent to 15 percent over the next 12 months.

ANS: A PTS: 1 REF: p. 44 OBJ: LO 2-1

17. If a retailer has set its primary objective as gaining 5 percent of market share, it is focusing on a _____ objective.
    a. productivity performance
    b. consumer choice
    c. merchandise productivity
    d. market performance
    e. competition-oriented

ANS: D PTS: 1 REF: p. 44-45 OBJ: LO 2-1

18. A retailer is establishing what kind of objective when it says it would like to command a 22 percent share of the market?
    a. Market performance objective
    b. Financial performance objective
    c. Societal objective
    d. Personal objective
    e. Consumer choice objective

ANS: A PTS: 1 REF: p. 44-45 OBJ: LO 2-1

19. Dollar General's goal and objective, "To reduce overhead as a percentage of sales, enabling it to further sharpen our everyday low prices" is an example of a _____ objective.
    a. market performance
    b. societal
    c. personal
    d. merchandise productivity
    e. financial performance

ANS: E PTS: 1 REF: p. 45 OBJ: LO 2-1

20. Financial performance objectives can be broken into two categories:
    a. marketing objectives and operating objectives.
    b. profitability objectives and productivity objectives.
    c. administrative objectives and financial strategy objectives.
    d. human performance objectives and information objectives.
    e. seasonal objectives and general operating objectives.

ANS: B PTS: 1 REF: p. 45 OBJ: LO 2-1

21. Which of the following elements is NOT a part of the strategic profit model (SPM)?
    a. Net profit margin
    b. Space productivity
    c. Asset turnover
    d. Financial leverage
    e. Return on assets

ANS: B PTS: 1 REF: p. 45 OBJ: LO 2-1

22. The Card Shoppe had a gross margin last year of $2,000,000 and a net profit of $300,000, while net sales were $2,500,000. What was The Card Shoppe's net profit margin for last year?
    a. 12.0 percent
    b. 15.0 percent

c. 20.0 percent
d. 68.0 percent
e. 80.0 percent

ANS: A PTS: 1 REF: p. 45 OBJ: LO 2-1

23. Cameron Brody wants 15 percent of an average dollar invested in the assets of his bookstore to be returned in profit. Cameron is setting a(n) _____ financial objective.
a. gross margin return on sales
b. return on inventory
c. return on net worth
d. operating profit margin
e. return on assets

ANS: E PTS: 1 REF: p. 45-46 OBJ: LO 2-1

24. If net profit margin is 2.0 percent, the rate of asset turnover is 6.0x, and the financial leverage is 2.1, what is the return on assets?
a. 0.333 percent
b. 8.0 percent
c. 12.0 percent
d. 25.2 percent
e. 33.0 percent

ANS: C PTS: 1 REF: p. 45-46 OBJ: LO 2-1

25. Which of the following is NOT an example of a financial performance goal?
a. Increase return on assets from 8 percent to 9 percent.
b. Increase asset turnover from 2.5 to 2.8.
c. Increase market share by 20 percent.
d. Increase space productivity by 5 percent.
e. Reduce financial leverage from 2.1 to 2.0.

ANS: C PTS: 1 REF: p. 45-47 OBJ: LO 2-1

26. If net profit margin is 5.0 percent, rate of asset turnover is 4.0x, and financial leverage is 2.0x, then return on net worth is:
a. 8.0 percent.
b. 10.0 percent.
c. 20.0 percent.
d. 40.0 percent.
e. 80.0 percent.

ANS: D PTS: 1 REF: p. 46 OBJ: LO 2-1

27. If a retailer has a net profit margin of 3 percent, asset turnover of 4.0x, and financial leverage of 2.0x, then its return on net worth is:
a. 6 percent.
b. 8 percent.
c. 12 percent.
d. 24 percent.
e. 48 percent.

ANS: D PTS: 1 REF: p. 46 OBJ: LO 2-1

28. If a retailer has a return on assets of 15 percent and a net profit margin of 3 percent, then its rate of asset turnover is:
    a. .20 times.
    b. 5.0 times.
    c. 15.0 times.
    d. 30.0 times.
    e. 60.0 times.

    ANS: B PTS: 1 REF: p. 46 OBJ: LO 2-1

29. A retailer has total assets of $6,000,000 and a net worth of $3,000,000. What is the retailer's financial leverage ratio?
    a. .5 times
    b. 2.0 times
    c. 50 percent
    d. 75 percent
    e. 100 percent

    ANS: B PTS: 1 REF: p. 46 OBJ: LO 2-1

30. A retailer has a net profit of $1,000,000, total assets of $12,000,000, a 2.5 asset turnover ratio, and a net worth of $5,000,000. What is its financial leverage ratio?
    a. .083 times
    b. .500 times
    c. 2.00 times
    d. 2.40 times
    e. 4.80 times

    ANS: D PTS: 1 REF: p. 46 OBJ: LO 2-1

31. If a retailer has an ROA of 10 percent and a financial leverage of 4.0, then its RONW would be:
    a. 0.4 percent.
    b. 6 percent.
    c. 14 percent.
    d. 26 percent.
    e. 40 percent.

    ANS: E PTS: 1 REF: p. 46 OBJ: LO 2-1

32. If a retailer with an ROA of 7.0 percent decides to increase its financial leverage ratio from 1.5 times to 2.0 times, which of the following results will occur?
    a. The retailer's ROA will increase by 33 percent.
    b. The retailer's RONW will decrease by 33 percent.
    c. The retailer's RONW will go from 10.5 percent to 14.0 percent.
    d. The retailer's RONW will increase by .5 percent.
    e. The retailer's RONW will increase by 10.5 percent.

    ANS: C PTS: 1 REF: p. 46 OBJ: LO 2-1

33. Specialty stores typically have a _____ than discounters.
    a. lower asset turnover
    b. lower profit margin
    c. lower return on net worth
    d. lower market share
    e. lower return on net worth and lower market share

ANS: A PTS: 1 REF: p. 46 OBJ: LO 2-1

34. When a retailer uses productivity objectives, it is referring to the productivity of which resources?
    a. Market comparison, profitability, productivity
    b. Net worth, financial leverage, and asset turnover
    c. Sales, merchandise, and owner's equity
    d. Space, labor, and merchandise
    e. space, owner's equity, and merchandise

ANS: D PTS: 1 REF: p. 47 OBJ: LO 2-1

35. Space productivity is a type of:
    a. financial objective.
    b. market performance objective.
    c. merchandise productivity objective.
    d. consumer choice objective.
    e. human resource allocation objective.

ANS: A PTS: 1 REF: p. 47 OBJ: LO 2-1

36. Merchandise productivity:
    a. is net sales divided by the total square feet of retail floor space.
    b. states how many dollars in sales the retailer wants to generate for each square foot of store space.
    c. is net sales divided by the number of full-time–equivalent employees.
    d. reflects how many dollars in sales the retailer desires to generate for each full-time–equivalent employee.
    e. is net sales divided by the average dollar investment in inventory.

ANS: E PTS: 1 REF: p. 47 OBJ: LO 2-1

37. A retail firm that is setting goals based on its desire to help society fulfill some of its needs is developing _____ objectives.
    a. personal
    b. self-respect
    c. financial benefit
    d. self-esteem
    e. societal

ANS: E PTS: 1 REF: p. 47 OBJ: LO 2-1

38. _____ is the understanding, anticipating, and reacting to changing customer needs in order to maximize the revenue from a fixed capacity of available resources.
    a. Yield management
    b. Retail management
    c. Net profit maximization
    d. Objective management
    e. Retailing

ANS: A PTS: 1 REF: p. 49 OBJ: LO 2-1

39. You have recently been hired by a small retailer in your area. During a discussion with the owner, you notice that the owner's primary objective for being in business is to treat the consumer and suppliers fairly. The owner is primarily using a _____ objective to focus the business.

a. market performance
b. financial performance
c. societal
d. personal
e. self-esteem

ANS: C PTS: 1 REF: p. 49 OBJ: LO 2-1

40. The manager of a department store chose to use a percentage of the year's profits to help fund the Salvation Army's Thanksgiving Dinner for the Homeless. In reference to this sponsorship, the manager appears to have set what kind of objective?
a. Benefactor objective
b. Self-gratification objective
c. Financial performance objective
d. Status and respect objective
e. Personal objective

ANS: A PTS: 1 REF: p. 49 OBJ: LO 2-1

41. Given your love of hiking and other outdoor activities, you have decided to open a retail establishment offering hiking and other outdoor products. This _____ objective could be classified as:
a. societal; benefactor.
b. societal; equity.
c. personal; self-gratification.
d. personal; status and respect.
e. personal; power and authority.

ANS: C PTS: 1 REF: p. 50 OBJ: LO 2-1

42. Chandler Markus is the store manager for a large discount drugstore. Chandler allows his department managers to arrange the fixtures and schedule their employees as they see fit. According to Chandler's actions, the drugstore has set what kind of objective?
a. Benefactor objective
b. Power and authority objective
c. Space productivity objective
d. Employee-centered objective
e. Employee empowerment

ANS: B PTS: 1 REF: p. 51 OBJ: LO 2-1

43. Which of the following refers to a retailer's "traffic strategy"?
a. Having the right merchandise, using the right layout and display, and having the right sales force
b. Providing the appropriate level of service that the customers expect
c. Getting shoppers and converting them into customers at the lowest operating cost possible
d. Converting shoppers into customers by having them purchase merchandise
e. Getting shoppers into the store

ANS: E PTS: 1 REF: p. 52 OBJ: LO 2-1

44. Closure strategy is:
a. often referred to as a "retailer's cost management" strategy.
b. just getting shoppers into the store.
c. getting shoppers in the store and converting them into customers at the lowest operating cost possible.

d. often referred to as a retailer’s traffic strategy.
e. having the right merchandise, using the right layout and display, and having the right sales force.

ANS: E PTS: 1 REF: p. 53 OBJ: LO 2-1

45. A “retailer’s cost management” strategy refers to:
a. getting shoppers into the store.
b. having the right merchandise, using the right layout and display, and having the right sales force.
c. the small size of the retailers' stores which gives these advantages in negotiating leases in an industry with a surplus of stores, thus reducing their operating costs.
d. having a low marginal cost, where the cost of selling one more unit does not significantly impact total costs, thus making them want to maximize revenue.
e. getting shoppers and converting them into customers at the lowest operating cost possible that is consistent with the level of service that customers expect.

ANS: E PTS: 1 REF: p. 55 OBJ: LO 2-1

46. The analysis that provides management with a critical view of the organization's position relative to its internal and external environment is known as:
a. SWOT analysis.
b. strategic window analysis.
c. leverage analysis.
d. retail audit.
e. opportunities awareness.

ANS: A PTS: 1 REF: p. 57 OBJ: LO 2-1

47. The four factors that must be assessed in a "SWOT" analysis are:
a. strengths, weaknesses, opportunities, and threats.
b. sales, wages, operations, and types of merchandise.
c. sales, weaknesses, overhead costs, and taxes levied on goods.
d. strengths, weaknesses, operations, and types of merchandise.
e. special events, worth of inventory, opportunities, and threats.

ANS: A PTS: 1 REF: p. 57 OBJ: LO 2-1

48. If a retailer is assessing the remodeling needs of its stores, as well as evaluating the effect that the lack of a formal training program is having on the management of its establishments, the retailer is reviewing the firm's:
a. strengths.
b. weaknesses.
c. opportunities.
d. threats.
e. operations.

ANS: B PTS: 1 REF: p. 58 OBJ: LO 2-1

49. When a retailer is attempting to determine its major advantage(s) over competitors, it is analyzing its:
a. strengths.
b. weaknesses.
c. opportunities.
d. threats.
e. operations.

ANS: A PTS: 1 REF: p. 58 OBJ: LO 2-1

50. If a retail firm is attempting to determine the potential negative effects of a new competitor entering the market, it is assessing its:
    a. strengths.
    b. weaknesses.
    c. opportunities.
    d. threats.
    e. operations.

ANS: D PTS: 1 REF: p. 58 OBJ: LO 2-1

51. If a retailer is attempting to determine which of the closely related areas of business are underdeveloped in its market, it is assessing its:
    a. strengths.
    b. weaknesses.
    c. opportunities.
    d. threats.
    e. operations.

ANS: C PTS: 1 REF: p. 58 OBJ: LO 2-1

52. A fully-developed retail marketing strategy specifies the:
    a. level of financial performance sought and mix of financial statement components.
    b. specific target market sought, location, the specific retail mix to be used, and the retailer’s value proposition.
    c. consumer and channel member behavior.
    d. prices of goods to be sold.
    e. retail mix to be used, specific target market sought, and budget available.

ANS: B PTS: 1 REF: p. 60 OBJ: LO 2-1

53. _____ signify what the retailer wants to accomplish, while _____ indicate how the retailer will attempt to achieve them.
    a. Objectives; mission statements
    b. Mission statements; plans
    c. Strategies; plans
    d. Objectives; strategies
    e. Action plans; strategies

ANS: D PTS: 1 REF: p. 60 OBJ: LO 2-1

54. A retailer's retail mix consists of all of the following EXCEPT:
    a. location.
    b. price.
    c. customer service and selling.
    d. target market.
    e. merchandise.

ANS: D PTS: 1 REF: p. 61 OBJ: LO 2-1

55. The retailer’s _____ is a clear statement of the tangible and intangible results a customer receives from using the retailer’s products or services.
    a. mission statement

b. customer interaction tracker
c. value proposition
d. customer type indicator
e. vision statement

ANS: C PTS: 1 REF: p. 61 OBJ: LO 2-1

56. Which of the following is an incorrect statement regarding strategic planning?
a. A short-term commitment of resources is required by strategic planning.
b. The strategic planning process is started by assessing the external environment.
c. Effective strategic planning can aid a retailer in contending with competitors.
d. Strategic planning takes into consideration how a retailer responds to the environment.
e. Ineffective strategic planning can lead to a decrease in a retailer's level of profitability.

ANS: A PTS: 1 REF: p. 62-63 OBJ: LO 2-2

57. Although critical for retail success, most retail managers have little control over decisions related to:
a. promotional strategy.
b. location.
c. personnel.
d. service levels.
e. credit policies.

ANS: B PTS: 1 REF: p. 63 OBJ: LO 2-2

58. The _____ is not one of the major environmental forces that needs to be evaluated by retailers involved in strategic planning.
a. behavior of supply chain members
b. technological environment
c. socioeconomic environment
d. behavior of your competitor(s)
e. behavior of your employees

ANS: E PTS: 1 REF: p. 64 OBJ: LO 2-2

59. The aim of operations management is to:
a. heighten customer service.
b. advance the merchandise mix.
c. maximize the performance of current operations.
d. develop more effective long-term plans.
e. increase a product's perceived value to the customer.

ANS: C PTS: 1 REF: p. 66 OBJ: LO 2-2

60. Which of the following tasks requires the retailer to exert the most effort in terms of time and energy?
a. Administrative management
b. Operations management
c. Strategic planning
d. SWOT analysis
e. Acquisition of resources

ANS: B PTS: 1 REF: p. 66 OBJ: LO 2-2

61. It is necessary for retail firms to strive for high-profit performance results:
a. so that average operating results can be obtained even if planned results cannot be

accomplished.
b. as a means of achieving the largest profit possible.
c. a retailer need not strive for high profit performance results.
d. so that new retailer entrepreneurs cannot enter the market.
e. so that the managers can be allocated larger year-end bonuses.

ANS: A PTS: 1 REF: p. 66 OBJ: LO 2-2

62. As a general rule, retailers should strive for a net profit margin of:
a. .05 to 1.5 percent.
b. 1.5 to 2.5 percent.
c. 2.5 to 3.5 percent.
d. 3.5 to 4.5 percent.
e. 4.5 to 5.5 percent.

ANS: C PTS: 1 REF: p. 66 OBJ: LO 2-2

63. As a general rule, retailers should strive for an asset turnover of:
a. 1.0 to 1.5 times.
b. 1.5 to 2.0 times.
c. 2.0 to 2.5 times.
d. 2.5 to 3.0 times.
e. 3.0 to 3.5 times.

ANS: D PTS: 1 REF: p. 66-67 OBJ: LO 2-2

64. As a general rule, retailers should strive for a financial leverage of:
a. 1.0 to 2.0 times.
b. 2.0 to 3.0 times.
c. 3.0 to 4.0 times.
d. 4.0 to 5.0 times.
e. 5.0 to 6.0 times.

ANS: B PTS: 1 REF: p. 67 OBJ: LO 2-2

TRUE/FALSE

1. Superior planning can enable retailers to offset some of the advantages their competition may have, such as a better location.

ANS: T PTS: 1 REF: p. 40 OBJ: LO 2-1

2. Success for all retailers, large and small, is generally a matter of good planning and the implementation of the plan.

ANS: T PTS: 1 REF: p. 40-41 OBJ: LO 2-1

3. Strategic planning for a retailer consists of a) the development of a mission statement, b) the establishment of specific goals and objectives, c) setting a budget, and d) doing a SWOT analysis.

ANS: F PTS: 1 REF: p. 42 OBJ: LO 2-1

4. Nearly 80 percent of all retailers have a written mission statement.

ANS: F PTS: 1 REF: p. 42 OBJ: LO 2-1

5. Essentially, a retailer's mission statement describes the fundamental nature, rationale, and direction of the firm.

ANS: T PTS: 1 REF: p. 42 OBJ: LO 2-1

6. If a firm does not have a written mission statement, it will probably never be successful.

ANS: F PTS: 1 REF: p. 42 OBJ: LO 2-1

7. A good mission statement states how the retailer intends to use its resources, how it expects to relate to the ever-changing environment, and how it expresses the values it intends to offer the consumer.

ANS: T PTS: 1 REF: p. 42 OBJ: LO 2-1

8. A major shortcoming of most retailers’ mission statements is defining one’s business too broadly.

ANS: F PTS: 1 REF: p. 43 OBJ: LO 2-1

9. Retailers that have broad missions that motivate employees and focus on customers while simultaneously providing direction will have higher profit performance.

ANS: T PTS: 1 REF: p. 43 OBJ: LO 2-1

10. A firm's specific goals and objectives should be identified within its mission statement.

ANS: F PTS: 1 REF: p. 44 OBJ: LO 2-1

11. Just having a written mission statement is enough for success in today's environment; after all, with all the changes taking place it would be foolish to expect a retailer to always adhere to its original mission statement.

ANS: F PTS: 1 REF: p. 44 OBJ: LO 2-1

12. A retailer's goals and objectives should give precision and direction to the retailer's mission statement.

ANS: T PTS: 1 REF: p. 44 OBJ: LO 2-1

13. Goal statements should specify "how" a retailer intends to achieve a specific level of performance, as well as the "time period" allowed for achievement of the results.

ANS: F PTS: 1 REF: p. 44 OBJ: LO 2-1

14. Market performance objectives compare a retailer's actions against those of competitors.

ANS: T PTS: 1 REF: p. 44 OBJ: LO 2-1

15. Financial performance objectives analyze the retailer's ability to provide a profit level adequate to continue in business.

ANS: T PTS: 1 REF: p. 44 OBJ: LO 2-1

16. Market share is equal to the retailer's total sales divided by total market sales.

ANS: T PTS: 1 REF: p. 44-45 OBJ: LO 2-1

17. Research has found a positive relationship between a firm's profitability and its market share.

ANS: T PTS: 1 REF: p. 45 OBJ: LO 2-1

18. Net profit margin shows how much profit a retailer makes on each dollar of sales.

ANS: T PTS: 1 REF: p. 45 OBJ: LO 2-1

19. Net profit margin is calculated by dividing the retailer's net profits by markup in dollars.

ANS: F PTS: 1 REF: p. 45 OBJ: LO 2-1

20. A retailer operating with a profit margin of 20 percent is making $20 on each $100 of sales.

ANS: T PTS: 1 REF: p. 45 OBJ: LO 2-1

21. The strategic profit model (SPM) assesses a retailer's performance and is based on the retailer's net profit margin, rate of asset turnover, financial leverage, and return on net worth.

ANS: T PTS: 1 REF: p. 45 OBJ: LO 2-1

22. Return on assets is net profit divided by total assets.

ANS: T PTS: 1 REF: p. 45 OBJ: LO 2-1

23. If a retailer has a net profit margin of 2.0 percent, an asset turnover of 1.5, and a financial leverage of 3.0, then its ROA will be 6.0 percent.

ANS: F PTS: 1 REF: p. 45-46 OBJ: LO 2-1

24. Most retailers like to operate with a financial leverage ratio of 1.0 or greater so as to minimize debt.

ANS: F PTS: 1 REF: p. 46 OBJ: LO 2-1

25. If a retailer has a financial leverage rate of 2.3 and an asset turnover of 2, then its RONW is 4.6 percent.

ANS: F PTS: 1 REF: p. 46 OBJ: LO 2-1

26. If a retailer has an ROA of 8 percent and a financial leverage of 2.0, then its RONW will be 16 percent.

ANS: T PTS: 1 REF: p. 46 OBJ: LO 2-1

27. If a retailer has a net profit margin of 2.0 percent and an asset turnover of 3.0, then its ROA will be 6.0 percent.

ANS: T PTS: 1 REF: p. 46 OBJ: LO 2-1

28. Managers are usually evaluated on return on assets since financial leverage is beyond their control.

ANS: T PTS: 1 REF: p. 47 OBJ: LO 2-1

29. One of the key determinants of a retailer's profitability is its productive use of merchandise, labor, and space.

ANS: T PTS: 1 REF: p. 47 OBJ: LO 2-1

30. A space productivity objective states how many dollars in sales the retailer wants to generate for each square meter of store space.

ANS: F PTS: 1 REF: p. 47 OBJ: LO 2-1

31. An equity objective reflects the retailer's desire to treat the consumer and suppliers fairly and not endanger their living conditions.

ANS: T PTS: 1 REF: p. 49 OBJ: LO 2-1

32. When a retailer donates money to charity, this is considered a benefactor societal objective.

ANS: T PTS: 1 REF: p. 49 OBJ: LO 2-1

33. Paying taxes is the retailer's role in helping finance societal needs that the government deems appropriate, from welfare programs to national parks.

ANS: T PTS: 1 REF: p. 49 OBJ: LO 2-1

34. Personal objectives relate to how a retail owner wishes to help individuals employed by the firm fulfill some of their needs.

ANS: T PTS: 1 REF: p. 50 OBJ: LO 2-1

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

ANS: T PTS: 1 REF: p. 50 OBJ: LO 2-1

36. All retail objectives, of whatever type, must be consistent with and reinforce the retailer's overall mission.

ANS: T PTS: 1 REF: p. 51 OBJ: LO 2-1

37. Many retailers think getting people to visit your website or your store is one of the most difficult tasks in retailing.

ANS: T PTS: 1 REF: p. 52 OBJ: LO 2-1

38. A retailer's traffic strategy means having the right merchandise, using the right layout and display, and having the right sales force.

ANS: F PTS: 1 REF: p. 52 OBJ: LO 2-1

39. A strategy is a carefully designed plan for achieving the retailer's goals and objectives.

ANS: T PTS: 1 REF: p. 52 OBJ: LO 2-1

40. A “retailer’s conversion” refers to getting shoppers in your store and converting them into customers, at the lowest operating cost possible that is consistent with the level of service that your customers expect.

ANS: F PTS: 1 REF: p. 54 OBJ: LO 2-1

41. Good strategies that reduce operating costs while providing the appropriate level of service present significant opportunities for retailers.

ANS: T PTS: 1 REF: p. 55 OBJ: LO 2-1

42. If the customer will never be profitable because of size, location, or other demands, then that customer must be dropped.

ANS: T PTS: 1 REF: p. 55 OBJ: LO 2-1

43. One of the least effective ways for a retailer to differentiate itself from the competition is to always seek to have the lowest prices in the trading area.

ANS: T PTS: 1 REF: p. 56 OBJ: LO 2-1

44. Price promotions usually attract, and subsequently hold, customers.

ANS: F PTS: 1 REF: p. 56 OBJ: LO 2-1

45. A retailer only needs to consider its strengths and environmental opportunities when formulating a strategic plan.

ANS: F PTS: 1 REF: p. 57 OBJ: LO 2-1

46. A SWOT analysis is actually the retail industry's term for an accounting audit.

ANS: F PTS: 1 REF: p. 57 OBJ: LO 2-1

47. "Do competitors do a better job of selecting merchandise and anticipating demand?" is an example of a "threat."

ANS: F PTS: 1 REF: p. 58 OBJ: LO 2-1

48. "Are new firms entering or are existing firms leaving? What is the impact on us?" is an example of a "weaknesses."

ANS: F PTS: 1 REF: p. 58 OBJ: LO 2-1

49. The fact that producers recognize the need to sell premium pet foods via big discount mass merchandisers is an example of an opportunity for PetSmart.

ANS: F PTS: 1 REF: p. 58 OBJ: LO 2-1

50. Warehouse clubs aggressively going after the cat litter business is an example of a strength for PetSmart.

ANS: F PTS: 1 REF: p. 58 OBJ: LO 2-1

51. Strategies indicate how the retailer will attempt to accomplish its goals with the resources available.

ANS: T PTS: 1 REF: p. 60 OBJ: LO 2-1

52. Target market refers to the group of consumers that a retailer is seeking to serve.

ANS: T PTS: 1 REF: p. 60 OBJ: LO 2-1

53. Both "retail mix" and "target market" are terms that refer to the combination of services offered to customers.

ANS: F PTS: 1 REF: p. 61 OBJ: LO 2-1

54. The retail mix is a combination of merchandise, price, advertising and promotion, location, customer service and selling, and store layout and design that best serves the segments targeted by the retailer.

ANS: T PTS: 1 REF: p. 61 OBJ: LO 2-1

55. Value proposition is the difference between the benefits offered by one retailer versus those of the competition.

ANS: T PTS: 1 REF: p. 61 OBJ: LO 2-2

56. Strategic planning requires that retailers consider the use of resources in the short-term.

ANS: F PTS: 1 REF: p. 62 OBJ: LO 2-2

57. Retail store managers often determine the location of their stores.

ANS: F PTS: 1 REF: p. 63 OBJ: LO 2-2

58. The first step in strategic planning is to determine the firm's retail marketing strategy.

ANS: F PTS: 1 REF: p. 63 OBJ: LO 2-2

59. By assessing changing environmental forces, strategic planning opportunities can be found.

ANS: T PTS: 1 REF: p. 63 OBJ: LO 2-2

60. The actions of supply chain members typically do not impact a retailer's strategy.

ANS: F PTS: 1 REF: p. 64 OBJ: LO 2-2

61. An effective retail strategy can result only from matching environmental forces with a retail marketing program that satisfies the company better than anything else.

ANS: F PTS: 1 REF: p. 64 OBJ: LO 2-2

62. Retailers typically can control the environmental factors that may impact them.

ANS: F PTS: 1 REF: p. 65 OBJ: LO 2-2

63. If a retailer makes efficient use of available resources, then the retailer is said to be operations effective.

ANS: T PTS: 1 REF: p. 66 OBJ: LO 2-2

64. Poorly managed operations can adversely affect a retailer's profitability.

ANS: T PTS: 1 REF: p. 66 OBJ: LO 2-2

65. Operations management concerns the acquisition and control of resources, while administrative management involves optimizing the efficient use of resources.

ANS: F PTS: 1 REF: p. 66 OBJ: LO 2-2

66. Retailers should set their performance goals at the same levels as their competitors.

ANS: F PTS: 1 REF: p. 66 OBJ: LO 2-2

67. It is still relatively difficult to start a retail business in comparison to starting a business in other industries.

ANS: F PTS: 1 REF: p. 66 OBJ: LO 2-2

68. As a general rule, a retailer should strive to have a net profit margin of 1.5 to 2.5 percent.

ANS: F PTS: 1 REF: p. 66 OBJ: LO 2-2

69. As a general rule, a retailer should strive to have an asset turnover rate between 1.5 to 2.0 times.

ANS: F PTS: 1 REF: p. 66-67 OBJ: LO 2-2

70. As a general rule, a retailer should strive to have its financial leverage between 3.0 and 4.0 times.

ANS: F PTS: 1 REF: p. 67 OBJ: LO 2-2

ESSAY

1. When setting goals and objectives, a retailer has a variety of objectives from which to choose. Please list and explain these objectives. How will each of these objectives influence the way in which the retailer conducts its operations?

ANS:
Retailers usually divide goals and objectives into two dimensions: (1) market performance, which compares a firm’s actions to its competitor’s; and (2) financial performance, which analyzes the firm’s ability to provide a profit level adequate to continue in business. In addition to the market performance and financial performance objectives, some retailers may also establish (3) societal objectives, which are phrased in terms of helping society fulfill some of its needs; and (4) personal objectives, which relate to helping people employed in retailing to fulfill some of their needs.

Market Performance Objectives: Market performance objectives establish the amount of dominance the retailer seeks in the marketplace. The most popular measures of market performance are sales volume and market share. Profitability is clearly and positively related to market share. Market performance objectives are pursued because they are a key profit path.

Financial Objectives: Retailers can establish many financial objectives, but they can all be fit into categories of profitability and productivity.

- Profitability Objectives: Profit-based objectives deal directly with the monetary return a retailer desires from its business. The most common way to define profit is the aggregate total of net profit after taxes. Another retail method of expressing profit is as a percentage of net sales. However, most retail owners feel the best way to define profit is in terms of return on investment (ROI). The strategic profit model (SPM) is a tool used to assess a firm's profitability. It contains five elements that include net profit margin, asset turnover, return on assets (ROA), financial leverage, and return on net worth (RONW). Another measure of profitability is the gross margin percentage, which is gross margin divided by net sales.
- Productivity Objectives: Productivity objectives state how much output the retailer desires for each unit of resource input. The major resources at the retailer's disposal are space, labor, and merchandise. Productivity objectives are vehicles by which a retailer can program its business for high-profit results. In short, productivity is a key determinant of profit in retailing.

Societal Objectives: Societal objectives highlight the retailer's concern with broader issues in society. The five most frequently cited societal objectives are employment objectives, payment of taxes, consumer choice, equity, and being a benefactor.

Personal Objectives: Personal objectives can relate to the personal goals of any of the employees, managers, or owners of the retail establishment. Generally, retailers tend to pursue three types of personal objectives: self-gratification, status and respect, and power and authority.

The retailer has to consider his/her objective(s) while deciding upon the retail strategy involving the retail mix, promotion, location, and so on.

PTS: 1 REF: p. 44-51 OBJ: LO 2-1

2. Explain the strategic profit model (SPM). How would a retailer use the SPM to assess its performance relative to the competition?

ANS:
The most frequently encountered profit objectives for a retailer are shown in the strategic profit model (SPM), a tool used to assess a firm's profitability. The five elements of the SPM elements include net profit margin, asset turnover, return on assets, financial leverage, and return on net worth.

- Net profit margin is the ratio of net profit (after taxes) to net sales. It shows how much profit a retailer makes on each dollar of sales after all expenses and taxes have been met.
- Asset turnover is computed by taking the retailer's annual net sales and dividing by total assets. This ratio shows how productively the firm's assets are being used.
- Return on assets (ROA), which is annual net profit divided by total assets, depicts the net profit return the retailer achieved on all assets invested regardless of whether the assets were financed by creditors or by the firm's owners. ROA is the result of multiplying the net profit margin by asset turnover.
- Financial leverage is total assets divided by net worth or owners' equity. This ratio shows the extent to which a retailer is using debt in its total capital structure.

- Return on net worth (RONW) is net profit divided by net worth or owner's equity. Return on net worth is usually used to measure owner's performance. The ROA multiplied by financial leverage yields RONW.

Retailers could use the information from any of the five SPM elements to compare their performance relative to the competition.

PTS: 1 REF: p. 45-47 | p. 66-67 OBJ: LO 2-1 | LO 2-2

3. Discuss the components of SWOT analysis used by a retailer.

ANS:
A retailer who wants to develop a strategy to differentiate itself starts with an analysis of the retailer's strengths and weaknesses as well as the threats and opportunities that exist in the environment. This process, which is referred to as SWOT analysis (SWOT for strengths, weaknesses, opportunities, and threats), involves asking the following questions.

Strengths:
- What major competitive advantage(s) do we have?
- What are we good at?
- What do customers perceive as our strong points?

Weaknesses:
- What major competitive advantage(s) do competitors have over us? What are competitors better at than we are?
- What are our major internal weaknesses?

Opportunities:
- What favorable environmental trends may benefit our firm?
- What is the competition doing in our market?
- What areas of business that are closely related to ours are undeveloped?

Threats:
- What unfortunate environmental trends may hurt our future performance?
- What technology is on the horizon that may soon have an impact on our firm?

PTS: 1 REF: p. 57-58 OBJ: LO 2-1

4. Explain why strategic planning is a necessary prerequisite for operations management.

ANS:
Strategic planning involves adapting the resources of the firm to the opportunities and threats of an ever-changing retail environment. Since operations management is concerned with maximizing the efficiency of the retailer's use of resources and with how the retailer converts these resources into sales and profits, all of these activities require day-to-day attention. The retail strategic planning and operations management model shows that operations management involves managing the buying and handling of merchandise, pricing, advertising and promotion, customer services and selling, and facilities. The cumulative effect of well-designed and executed strategic and operations plans will be the achievement of high profit. Mistakes in either of these two areas will severely hamper the retailer's performance and prevent it from being among the leaders in its industry.

PTS: 1 REF: p. 42 | p. 66 OBJ: LO 2-1 | LO 2-2

5. Success in retailing is a function of strategic planning and operations management. Please explain the retail strategic planning and operations management model and the ways a retailer can employ this model in a globally competitive environment.

ANS:
Exhibit 2.6 provides the strategic planning and operations management model. Strategic planning involves adapting the resources of the firm to the opportunities and threats of an ever-changing retail environment. Considering the strategic plan, it involves the development of a mission statement for the firm, definition of specific goals and objectives for the firm, SWOT analysis, and development of basic strategies that will enable the firm to reach its objectives and fulfill its mission. It profiles the major environmental forces that should be assessed. Briefly, these are consumer behavior, competitor behavior, supply chain behavior, the socioeconomic environment, the technological environment, and the legal and ethical environment. Operations management is concerned with maximizing the efficiency of the retailer's use of resources and with how the retailer converts these resources into sales and profits. Regardless, when a retailer is able to do a good job at operations management, then the retailer is said to be operations effective. The need to strive for a high profit is tied to the extremely competitive nature of retailing. While concerning a globally competitive environment, consumer behavior, competitor behavior, supply chain behavior, the socioeconomic environment, the technological environment, and the legal and ethical environment should be taken into consideration.

PTS: 1 REF: p. 42 | p. 62-67 OBJ: LO 2-1 | LO 2-2

6. What are the major environmental forces that should be constantly assessed by retailers?

ANS:
The major environmental forces that should be constantly assessed by retailers are:

- Consumer behavior: The retailer will need to understand the determinants of shopping behavior so that it can identify likely changes in that behavior and develop appropriate strategies.
- Competitor behavior: Retailers must develop a competitive strategy that is not easily imitated, which happens all too often with price cuts.
- Supply chain behavior: The behavior of members of the retailer's supply chain can have a significant impact on the retailer's future.
- Socioeconomic environment: The retailer must understand how economic and demographic trends will influence revenues and costs in the future and adapt its strategy according to these changes.
- Technological environment: The technical frontiers of the retail system encompass new and better ways of performing standard retail functions. The retailer must always be aware of opportunities for lowering operating costs.
- Legal and ethical environment: The retailer should be familiar with local, state, and federal regulations of the retail system. It must also understand evolving legal patterns in order to be able to design future retail strategies that are legally defensible. At the same time, the retailer must operate at the highest level of ethical behavior.

PTS: 1 REF: p. 64-65 OBJ: LO 2-2