

CHAPTER 2

TYPES OF RETAILERS

ANNOTATED OUTLINE	INSTRUCTOR NOTES
I. Retailer Characteristics <ul style="list-style-type: none"> 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. 	<p><i>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.</i></p> <p><i>PPT 2-5 illustrate classification of retailers by merchandise offering and by variety and assortment.</i></p>
A. Variety and Assortment. <ul style="list-style-type: none"> 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. 	<p><i>See PPT 2-8</i></p> <p><i>Ask students to give examples of local retailers with low variety and high assortment, with high variety and low assortment.</i></p> <p><i>What benefits does high variety offer to customers? What is the benefit of high assortment?</i></p> <p><i>Ask student to give an example of an SKU.</i></p>
B. Services Offered <ul style="list-style-type: none"> Retailers also differ in the services they offer customers. Customers expect 	<p><i>See PPT 2-10</i></p> <p><i>Discuss the different customer service policies</i></p>

<p>retailers to provide some services-- accepting personal checks, displaying merchandise, providing parking, and being open long and convenient hours.</p> <ul style="list-style-type: none"> Some retailers charge customers for other services, such as home delivery and gift wrapping, although upscale retailers offer customers these services at no charge. 	<p><i>of a national specialty store like Victoria's Secret and a local department store or an Internet retailer.</i></p> <p><i>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?</i></p>
<p>C. Prices and the Cost of Offering Breadth and Depth of Merchandise and Services</p> <ul style="list-style-type: none"> 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 charge higher prices. A critical retail decision involves the trade-off between costs and benefits of maintaining additional inventory or providing additional services. 	<p><i>See example in PPT 2-12 for illustration</i></p> <p><i>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.)</i></p> <p><i>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.)</i></p> <p><i>PPT 2-14 shows a comparison of sales and growth rates in various retail sectors</i></p>
<p>II. Food Retailers</p> <ul style="list-style-type: none"> 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- 	<p><i>See PPT 2-15, 2-16</i></p> <p><i>Where do students make the majority of their off-campus food purchases? What are the pros and cons of these different food retailer formats?</i></p>

<p>Mart with supermarket-type sales of more than \$134 billion.</p>	
<p>A. Supermarkets</p> <ul style="list-style-type: none"> • 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. 	<p><i>See PPT 2-17</i></p> <p><i>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?</i></p>
<p>1. Trends in Supermarket Retailing</p> <ul style="list-style-type: none"> • Today, conventional supermarkets are under substantial competitive pressure. Supercenters are attracting customers with 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, 	<p><i>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 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?</i></p> <p><i>See PPT 2-20 for coverage of Trends.</i></p>

<p>deli and bakery departments), targeting health conscious and ethnic consumers, providing a better in-store experience, and offering more private-label brands.</p> <ul style="list-style-type: none"> • 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. • 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. 	
<p>B. Supercenters</p> <ul style="list-style-type: none"> • 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. 	<p><i>See PPT 2-22 for an illustration of the characteristics of supercenters and warehouse clubs.</i></p> <p><i>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</i></p>

<ul style="list-style-type: none"> • 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 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. 	<p><i>shopping in supercenters versus conventional supermarkets? What are the disadvantages?</i></p> <p><i>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.</i></p>
<p>C. Warehouse Club</p> <ul style="list-style-type: none"> • 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. 	<p><i>See PPT 2-22 for an illustration of the characteristics of supercenters and warehouse clubs.</i></p> <p><i>Ask students to give local examples of warehouse clubs. What is the target market for warehouse clubs? (Consumers with larger families and small businesses.)</i></p>

<ul style="list-style-type: none"> • 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. 	<p><i>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.</i></p>
<p>D. Convenience Stores</p> <ul style="list-style-type: none"> • 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 	<p><i>See PPT 2-23 for an overview of the characteristics of convenience stores</i></p> <p><i>Ask students to give examples of local convenience stores.</i></p> <p><i>Which products do they tend to buy most often at convenience stores?</i></p> <p><i>What do they like/dislike about them? In general, what is so "convenient" about convenience stores?</i></p> <p><i>What services do students believe would make a convenience store more "convenient"?</i></p>

<p>work. Others are exploring the use of technology to increase shopping convenience such as self-service kiosks.</p>	
<p>III. General Merchandise Retailers</p> <ul style="list-style-type: none"> 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. 	<p><i>See PPT 2-24</i></p> <p><i>PPT 2-24 compares the various types of general merchandise retailers along several characteristics.</i></p>
<p>A. Department Stores</p> <ul style="list-style-type: none"> 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). 	<p><i>See PPT 2-25, 2-26, 2-27</i></p> <p><i>Ask students to give examples of local department stores. Why do customers go to department stores? What do they like/dislike about them?</i></p> <p><i>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?</i></p> <p><i>Which department store tier do students prefer? Which tier do they shop most often? Discuss differences in these responses.</i></p>

<ul style="list-style-type: none"> • 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. 	
<p>B. Full-Line Discount Stores</p> <ul style="list-style-type: none"> • 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. 	<p><i>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?</i></p> <p><i>In general, what are the factors that contribute to the success of discount stores despite increasing competition from other formats?</i></p>
<p>C. Specialty Stores</p> <ul style="list-style-type: none"> • 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 	<p><i>See PPT 2-29, 2-30</i></p> <p><i>Why do customers go to specialty stores? What do they like/dislike about them?</i></p> <p><i>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.</i></p> <p><i>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</i></p>

offering new, fresh merchandise 2-3 times per week.	<i>best suited for.</i>
<p>D. Drugstores</p> <ul style="list-style-type: none"> • Drugstores are specialty stores that concentrate on health and personal grooming 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. 	<p><i>See PPT 2-31</i></p> <p><i>Ask students if they have shopped online for drugstore products. What has been their experience? Do they think the Internet is a viable channel for drugstore merchandise?</i></p>
<p>E. Category Specialist</p> <ul style="list-style-type: none"> • 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 	<p><i>See PPT 2-32, 2-33</i></p> <p><i>Ask students to give local examples of category specialists. How are they similar to specialty stores? Discuss the differences and similarities with discount stores.</i></p>

<p>category of merchandise, they can use their buying power to negotiate low prices, and assured supply when items are scarce.</p> <ul style="list-style-type: none"> • 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 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. 	<p><i>Ask students to describe an experience at a home improvement center such as Home Depot in terms of merchandise, atmosphere and salesperson service.</i></p>
<p>F. Extreme Value Retailers</p> <ul style="list-style-type: none"> • 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 	<p><i>See PPT 2-34 for a summary of issues facing extreme value retailers.</i></p> <p><i>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?</i></p>

<p>maintain very low prices.</p> <ul style="list-style-type: none"> • 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 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. 	
<p>G. Off-Price Retailers</p> <ul style="list-style-type: none"> • 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, 	<p><i>Ask students to give examples of local off-price retailers. What do consumers like about off-price retailers? What don't they like?</i></p> <p><i>See PPT 2-35 for a summary of the issues facing off-price retailers</i></p> <p><i>Ask students which type of off-price retailer offers consumers truly the best value? Why?</i></p>

<p>customers can't be confident that the same type of merchandise will be in stock each time they visit the store.</p> <ul style="list-style-type: none"> • 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 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. 	
<p>H. Differences between Services and Merchandise Retailers</p> <ul style="list-style-type: none"> • 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. 	<p><i>PPT 2-36</i></p>
<p>1. Intangibility</p> <ul style="list-style-type: none"> • 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 	<p><i>Ask students how customers can evaluate the quality of an intangible service offering. What problems does intangibility cause for the services retailer?</i></p>

complaints.	
<p>2. Simultaneous Production and Consumption</p> <ul style="list-style-type: none"> • 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. • 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. 	<p><i>What problems does simultaneous production cause for the services retailer?</i></p>
<p>3. Perishability</p> <ul style="list-style-type: none"> • 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 cannot accommodate them. 	<p><i>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?</i></p> <p><i>What actions have students seen services retailer take to make waiting time more enjoyable for customers?</i></p>

<ul style="list-style-type: none"> Services retailers use a variety of programs to match demand and supply. They also attempt to make customer waiting time more enjoyable. 	
<p>4. Inconsistency</p> <ul style="list-style-type: none"> Merchandise is often produced by machines with very tight quality control. Because services are performed by people, no two services will be identical. Thus, an important challenge for service retailers is providing consistently high-quality services. 	<p><i>What problems does inconsistency cause for the services retailer? Are there services retailers whose inconsistency is acceptable? (Custom designers, hair “artists”)</i></p>
<p>VII. Types of Ownership</p> <ul style="list-style-type: none"> 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. 	<p><i>See PPT 2-39</i></p>
<p>A. Independent, Single-Store Establishments</p> <ul style="list-style-type: none"> 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. 	<p><i>Ask students to give examples of local independent, single-store retailers. Do they shop at independents? Why or why not?</i></p> <p><i>Do students believe national chains will drive all independents out of business?</i></p>

<p>B. Corporate Retail Chains</p> <ul style="list-style-type: none"> • 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. 	<p><i>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).</i></p>
<p>C. Franchising</p> <ul style="list-style-type: none"> • 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. 	<p><i>Ask students to give examples of local franchises. If they wanted to own a retail business, would they want a franchise or their own store? Why? What are the advantages of being a franchisee?</i></p> <p><i>PPT 2-39 provides a brief introduction to the Franchising form of retail ownership.</i></p>
<p>VIII. Summary</p> <ul style="list-style-type: none"> • 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.
- 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.

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.

ANSWERS TO SELECTED “GET OUT AND DO ITS”

2 GO SHOPPING Go to an athletic footwear specialty store such as Foot Locker, a sporting goods category specialist, a department store, and a discount store. Analyze their variety and assortment of athletic footwear by creating a table similar to that in Exhibit 2–2.

Students should be able to fill in this type of table and explain their findings.

	Variety of Athletic Footwear Breath of Merchandise	Assortment of Athletic Footwear Depth of Merchandise
Footlocker Specialty Store		
Sporting Goods Category Specialist		
Department store		
Discount Store		

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3 GO SHOPPING Keep a diary of where you shop, what you buy, and how much you spend for two weeks. How did each retailer meet your shopping needs? Get your parents to do the same thing. Tabulate your results by type of retailer. Are your shopping habits significantly different or are they similar to those of your parents? Do you and your parents' shopping habits coincide with the trends discussed in this chapter? Why or why not?

Students should keep a list of places shopped. Results can be compared to a parent or another classmate. This assignment should give student insight to their own consumer buying behavior and how they select merchandise and retail formats.

4 GO SHOPPING Describe how the supermarket where you shop is implementing organic, locally grown, ethnic and private label merchandise. If any of these categories of merchandise are missing, explain how this could be a potential opportunity for growth for this supermarket.

Responses here will vary. Some stores have big commitment to organic, locally grown, ethnic and private label merchandise. Students should consider the demographics of the store's customers to evaluate the potential demand for these categories.

5 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

7 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.

8 Bed Bath & Beyond is the number one superstore domestics retailer in the US with about 930 stores throughout the US and Ontario, Canada. This retailer sells domestics (bed linens, bathroom and kitchen items) and home furnishings (cookware and cutlery, small household appliances, picture frames, and organizing supplies). What are the SIC and NAICS codes used by this retailer? What other retailers compete against Bed Bath & Beyond and which store format is implemented by each competitor?

Primary SIC Code 5023: Home furnishings

Primary NAICS Code 442299: All Other Home Furnishings Stores

Other SIC Codes

2273 Carpets and rugs	35 Household vacuum cleaners
2391 Curtains and draperies	39 Household appliances, nec
2392 House furnishings, nec	61 Telephone and telegraph apparatus
2519 Household furniture, nec	21 Furniture
2844 Toilet preparations	41 Children's and infants' wear stores
3631 Household cooking equipment	19 Misc. home furnishings stores
3633 Household laundry equipment	22 Household appliance stores
3634 Electric housewares and fans	47 Gift, novelty, and souvenir shops

Key Competitors

Macy's	Department store
Target	Discount Store
Wal-Mart	Discount store

Other Competitors

Anna's Linens	J. C. Penney
Art.com	Kmart Macy's
Babies "R" Us	Pier 1 Imports
Burlington Coat Factory	Ross Stores
The Children's Place	Saks
Container Store	Sears
Cost Plus	Sensational Beginnings
Dillard's	Target
Euromarket Designs	TJX Companies
Garden Ridge	Tuesday Morning Corporation
Gymboree	Wal-Mart
KEA	Williams-Sonoma

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	Limited advertising, frequent shopper programs tied to gasoline sales.	High-low pricing chains advertise weekly specials.	Limited advertising since most have everyday pricing.	Minimal promotion since all merchandise is basically on sale.
Personal selling	Minimal	Minimal	Minimal	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 canned goods at a warehouse or superstore and then go to a supermarket to buy meat, produce, and gourmet food.

- 5. Could a large discounter, such as Target or Walmart, enter another retail format such as convenience stores or department stores in the future? Would they be successful with either strategy? Explain why or why not.**

Both Target and Walmart have had success entering other store formats. Target is offering more supermarket items and Walmart has food stores and warehouse stores. Based on these experiences it could be possible for these discounters to enter other formats. Department stores may be more problematic because there has been considerable industry consolidation in this category. There are already three tiers in the department store category, therefore there is already high competition.

- 6. 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.

- 7. The same brand and model of a personal computer is sold by specialty computer stores, discount stores, category specialists, online retailers and warehouse stores. Why would a customer choose one retail format over the others?**

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.

Some customers will prefer the convenience and selection offered online. The Internet may also be used to collect information and compare features and prices prior to shopping in a store location.

- 8. 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).

- 9. 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.

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

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.

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-.]

Chapter 1 – Introduction to the World of Retailing

Debate: Is Walmart good for society?

Format/Procedure

- ✚ Break into 6 teams, 3 on each side of the issue.
- ✚ Teams will have 10 minutes to prepare Opening Statements.
- ✚ 5 minute Opening Statements from each side. State your position and give supporting arguments.
- ✚ Teams will have 5 minutes to prepare for the Rebuttal.
- ✚ 5 minute Rebuttals from each side. Respond to the opposition's Opening Statement.
- ✚ Teams will have 5 minutes to prepare Concluding Statements. Incorporate the strongest points made in the Opening Statements and Rebuttals. This is a Summary and not a second Rebuttal.
- ✚ 5 minute Concluding Statements from each side.
- ✚ Individually answer the question: *Where do you stand on this issue and why?*

Group Assignment

In-Class Debate	Yes	No
Opening	1	2
Rebuttal	3	4
Concluding	5	6

Take aways on debating

- ✚ Begin by stating the side of the issue that you are discussing and then give supporting examples to illustrate
- ✚ Summarize what was said before leaving the podium
- ✚ Strengthen arguments by using “facts” such as direct quotes from article
- ✚ Pose questions to the opposition to illustrate the weaknesses in their arguments

Chapter 2 – Types of Retailers

What retailers or types of retailers are characterized as follows:

1. Offer a broad variety and deep assortment, with customer service.

2. Target low-income customers, but higher-income customers are increasingly patronizing these stores.

3. A type of “Category Specialist”

4. Nonstore format in which merchandise or services are stored in a machine and dispensed to customers when they deposit cash/credit.

5. Offer an inconsistent assortment of brand name merchandise at low prices.

6. Large stores that combine a supermarket with a full-line discount store.

7. Not popular in U.S., but popular in Europe

8. Can be further categorized into 3 tiers

9. Offers a broad variety of merchandise, limited service, and low prices.

10. A self-service food store offering groceries, meat, and produce with limited sales of nonfood items.

11. One of the fastest growing segments in retailing.

12. Carry a larger proportion of food items than supercenters.

13. Large stores located in low-rent areas

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14. 30% of sales are made through a party plan system.

15. General merchandise is typically purchased on impulse here

16. A type of specialty store.

17. Speedy checkout

18. Prices are 40% lower than conventional supermarkets

19. Known as “Category Killers”

20. Pharmaceuticals represent over 50% of their sales.

21. Large stores with a combination of food and general merchandise, but stocks fewer SKUs than supercenters

22. 80% of sales are made through multilevel networks.

23. Placing more emphasis on private label brands

24. Target low-income customers with smaller packages.

25. Most significant trend is conversion into supercenters.

26. Offer a limited number of complementary merchandise categories, high level of service, and small stores.

27. Meat and produce account for 44% of sales; have higher margins than packaged goods.-

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28. Concentrate on health and personal grooming.

29. Offering is communicated via letters and brochures.

30. A retail format in which customers watch a TV program that demonstrates merchandise & then place orders by telephone.

31. Buy opportunistically

32. Discount store that offers a deep, but narrow assortment of merchandise.

33. Emphasize perishables

34. Retail format in which salespeople contact customers directly in a convenient location, demonstrate merchandise or explain a service, take an order, and then deliver or perform.

35. Type of off-price retailer that sells broad but inconsistent merchandise, apparel, and soft home goods.

36. Known as “Discount Specialty Stores”

37. Offer limited, irregular assortment of food and general merchandise with little service and low prices

38. To survive, attempting to form exclusive arrangements with nationally recognized brands.

39. Offering is communicated to a customer through a catalog.

40. Increasing their private label brands.

CLASSROOM EXERCISES AND ACTIVITIES

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41. Over ½ items bought are consumer within 30 minutes.

42. Functions as a retailer and a wholesaler.

43. Receive deliveries every day

44. Traditional services, such as free bags and credit, are not provided.

45. By opportunistically from other retailers and manufacturers.

46. Organize stores into separate departments for displaying merchandise

47. Off-price retailer owned by a manufacturer.

48. 70% of sales are from 30% of its customers – other businesses

49. Type of nonstore retailer that communicates with customers and offers products and services over the Internet.

50. Fastest growing retail category

51. Also called extreme value food retailers and only stock about 1,250 SKUs

52. Gas accounts for 66% of sales

53. Can achieve low prices because of operating efficiency caused by scale economies.

54. Brands are typically less fashion oriented.

CLASSROOM EXERCISES AND ACTIVITIES

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55. Tailor retail mix to a very specific target market.

56. Small, full-line discount stores that offer a limited merchandise assortment at very low prices

57. Small stores that offer limited variety and assortment of merchandise at a convenient location for higher prices

Answers:

1. Offer a broad variety and deep assortment, with customer service. DEPT. STORE
2. Target low-income customers, but higher-income customers are increasingly patronizing these stores. EXTREME VALUE RET.
3. A type of "Category Specialist" HOME IMPROV. CENTER
4. Nonstore format in which merchandise or services are stored in a machine and dispensed to customers when they deposit cash/credit. VENDING MACH. RETAILING
5. Offer an inconsistent assortment of brand name merchandise at low prices. OFF-PRICE RETAILER
6. Large stores that combine a supermarket with a full-line discount store SUPERCENTER
7. Not popular in U.S., but popular in Europe HYPERMARKETS
8. Can be further categorized into 3 tiers DEPARTMENT STORE
9. Offers a broad variety of merchandise, limited service, and low prices. FULL-LINE DISCT
10. A self-service food store offering groceries, meat, and produce with limited sales of nonfood items. CONVENTIAL SUPERMARKET
11. One of the fastest growing segments in retailing. EXTREME VALUE RET.
12. Carry a larger proportion of food items than supercenters. HYPERMARKET
13. Large stores located in low-rent areas WAREHOUSE CLUBS
14. 30% of sales are made through a party plan system. DIRECT SELLING
15. General merchandise is typically purchased on impulse here SUPERCENTERS
16. A type of specialty store. DRUGSTORE
17. Speedy checkout CONVENIENCE STORES
18. Prices are 40% lower than conventional supermarkets LIMITED ASSORT. SUPERMRKT
19. Known as "Category Killers" CATEGORY SPECIALISTS
20. Pharmaceuticals represent over 50% of their sales. DRUGSTORES
21. Large stores with a combination of food and general merchandise, but stocks fewer SKUs than supercenters HYPERMARKETS
22. 80% of sales are made through multilevel networks. DIRECT SELLING
23. Placing more emphasis on private label brands DEPARTMENT STORES (& CONV SM)

CLASSROOM EXERCISES AND ACTIVITIES

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24. Target low-income customers with smaller packages. EXTREME VALUE RET.
25. Most significant trend is conversion into supercenters. FULL-LINE DISC.
26. Offer a limited number of complementary merchandise categories, high level of service, and small stores. SPECIALTY STORE
27. Meat and produce account for 44% of sales; have higher margins than packaged goods. SM
28. Concentrate on health and personal grooming. DRUGSTORE
29. Offering is communicated via letters and brochures. DIR. MAIL RET.
30. A retail format in which customers watch a TV program that demonstrates merchandise & then place orders by telephone. TELEVISION HOME SHOPPING
31. Buy opportunistically WAREHOUSE CLUBS (& OFF-PRICE)
32. Discount store that offers a deep, but narrow assortment of merchandise. CATEGORY SPECIALIST
33. Emphasize perishables HYPERMARKET
34. Retail format in which salespeople contact customers directly in a convenient location, demonstrate merchandise or explain a service, take an order, and then deliver or perform. DIRECT SELLING
35. Type of off-price retailer that sells broad but inconsistent merchandise, apparel, and soft home goods. CLOSEOUT RETAILER
36. Known as “Discount Specialty Stores” CATEGORY SPECIALIST
37. Offer limited, irregular assortment of food and general merchandise with little service and low prices WAREHOUSE CLUBS
38. To survive, attempting to form exclusive arrangements with nationally recognized brands. DEPT. STORE
39. Offering is communicated to a customer through a catalog. CATALOG RETAILING
40. Increasing their private label brands. CONV. SUPERMRKT (& DEPT STORES)
41. Over ½ items bought are consumer within 30 minutes. CONVEN. STORE
42. Functions as a retailer and a wholesaler. HOME IMPR. CENTER (WAREHOUSE CLUBS, DEPT/SPECT STORES FOR CLOSEOUT)
43. Receive deliveries every day CONVENIENCE
44. Traditional services, such as free bags and credit, are not provided. LIMITED ASST. SM (WAREHOUSE)
45. Buy opportunistically from other retailers and manufacturers. OFF-PRICE RET (WAREH FROM MANUF)
46. Organize stores into separate departments for displaying merchandise DEPARTMENT
47. Off-price retailer owned by a manufacturer. FACTORY OUTLET
48. 70% of sales are from 30% of its customers – other businesses WAREHOUSE CLUBS
49. Type of nonstore retailer that communicates with customers and offers products and services over the Internet. ELECTRONIC RETAILER
50. Fastest growing retail category SUPERCENTERS

CLASSROOM EXERCISES AND ACTIVITIES

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- 51. Also called extreme value food retailers and only stock about 1,250 SKUs LIMITED ASST
- 52. Gas accounts for 66% of sales CONV. STORES
- 53. Can achieve low prices because of operating efficiency caused by scale economies. CATEG.SPECIALISTS
- 54. Brands are typically less fashion oriented. FULL-LINE DISCT.
- 55. Tailor retail mix to a very specific target market. SPECIALTY
- 56. Small, full-line discount stores that offer a limited merchandise assortment at very low prices EXTREME VALUE RETAILERS
- 57. Small stores that offer limited variety and assortment of merchandise at a convenient location for higher prices CONVENIENCE

Chapter 2 – Retail Formats

Chapter 2 discusses several types of retail formats. After reviewing this section of your text, complete the table below by listing the key issues impacting each retail format. Be prepared to discuss your responses with the entire class.

Retail Format	Key Issues
Food Retailers	
Discount Stores	
Specialty Stores	
Category Specialists	
Department Stores	

Retail Formats with Answers

Chapter 2 discusses several types of retail formats. After reviewing this section of your text, complete the table below by listing the key issues impacting each retail format. Be prepared to discuss your responses with the entire class.

Retail Format	Key Issues
Food Retailers	<ul style="list-style-type: none"> - Increasing competition from other types of retailers - Walmart and other discounters selling more food items - Drug chains carry much of the same merchandise as food stores - Fast food restaurants sell healthy food alternatives - Convenience stores sell prepared meals, drinks and snacks - Offering “meal solutions” to counter competitive pressures, see better margins on prepared foods
Discount Stores	<ul style="list-style-type: none"> - Push to carry more grocery items - Intense competition from other formats - Creating a more attractive place to shop with more apparel and strong private label merchandise - EDLP and efficient operations - Americans want good value, not just cheap merchandise - High concentration – three top players - Walmart dominates the category
Specialty Stores	<ul style="list-style-type: none"> - Weak, slow growing area in retailing - Aging population is less interested in fashion spending - Competition from discount stores - Fashion rapidly changes as do customers tastes and preferences
Category Specialists	<ul style="list-style-type: none"> - Regional roots, now expanding - Competition is intense and focused on price, therefore the result is thin margins and little differentiation - Stress decreasing costs through efficient operations and economies of scale - Service level may be used for brand differentiation
Department Stores	<ul style="list-style-type: none"> - Overall sales are stagnant and market share has fallen in recent years - Increased competition from discount and specialty stores - Not seen as “romantic or convenient” as in the past - Located in large malls - Specific merchandise is hard to find - Less service is being offered - Charge higher prices than competitors - Some are lowering prices and offering more private label merchandise - Work closely with vendors to better stock merchandise

Chapter 2 – Extreme Value Retailers

Read the articles listed below and answer the following question:

Why are Extreme Value Retailers one of the fastest growing segments in retailing?

Berner, Robert. “Bargains at either end of the spectrum.” Businessweek, December 29, 2003.
(Business Source Premier)

“Walmart ‘in small boxes’ is booming.” The Baltimore Sun, December 6, 2003. (National Newspapers)

Consider each of the following in your response:

- Growth plans
- Direct competition in the category
- Competition against other formats
- Geographic and socioeconomic segmentation strategy
- Pricing strategy
- Investor’s perspective

Extreme Value Retailers with Answers

Read the articles listed below and answer the following question:

Why are Extreme Value Retailers one of the fastest growing segments in retailing?

Berner, Robert. "Bargains at either end of the spectrum." Businessweek, December 29, 2003.
(Business Source Premier)

"Walmart 'in small boxes' is booming." The Baltimore Sun, December 6, 2003. (National Newspapers)

Growth plans

- *Poised well to grow during economic recovery*
- *Opening larger stores that will sell more food items*
- *Regional growth planned*
- *600 new stores this year, and 675 new stores next year*

Direct competition in the category

- *Four leading chains – Dollar General, Family Dollar Stores, 99 Cents Only, and Dollar Tree*

Competition against other formats

- *Squeezing out competitors*
- *Smaller than Walmart and Target*
- *This format is showing 18% growth annually vs. 14.5% for mass discounters and 12% for warehouse clubs*

Geographic and socioeconomic segmentation strategy

- *Urban and rural strip malls*
- *Convenient locations*
- *Poor neighborhoods*
- *Targets consumer with <\$35,000 household income*
- *Tries to serve an underserved market*

Pricing strategy

- *Low prices on commodities*

Investor's perspective

- *Stock is performing well*
- *Solid margins*
- *Accounting scandal - new management now in place and SEC fine expected*
- *Strong growth*

CASES

Uses of Cases

#	Title	Chapter	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	Tractor Supply Company Targets the Part-Time Rancher		P	P			P		S											S
2	Build-A-Bear Workshop--Where Best Friends are Made		P	P			S													
3	Walmart's Sustainability 360		P								S				S					
4	Netflix Personalizes the Customer's Experience				P															S
5	The Decision Making Process for Buying a Bicycle					P														
6	Retailing in India -- The Impact of Hypermarkets		P	S		S	P													
7	Diamonds from Mine to Market					S	P					P			P					
8	Save-A-Lot -- An Extreme Value Retailer			P			P	S											S	
9	Royal Ahold: The Biggest Supermarket Retailer You Have Never Heard Of						P				S									
10	Abercrombie & Fitch and American Eagle Compete for 18-22 Year Olds		S	S			P										P			
11	Merchandise Strategy: Process for Success						P							P	S					
12	Tiffany's and Blue Nile - Comparing Financial Performance						S	P												
13	Choosing a Store Location for a Boutique								P											
14	Hutch: Locating a New Store									P										
15	Avon Embraces Diversity				S		S				P									
16	Attracting Generation Y to a Retail Career										P							S		
17	Nordstrom Rewards its Customers												P							S
18	Active Endeavors Analyzes its Customer Database												P							
19	Developing an Assortment Plan for Hughes													P						
20	Preparing a Merchandise Budget Plan													P						
21	PenAgain Sells to Walmart														P					
22	American Furniture Warehouse Sources Globally														P					
23	Merchandise Exclusively for JCPenney														P					
24	How Much for a Good Smell?															P				
25	Promoting a Sale															S	P			
26	Target Marketing with Google Adwords				S												P			
27	Enterprise Rent-A-Car Focuses on its People						S											P		S
28	Diamond in the Rough																	P		
29	"Touch and Feel at Sephora"				S		S												P	S
30	A Stockout at Discmart																	S		P
31	Relationship Management at Nordstrom							S			S									P
32	Building the Apple Store																		P	S
33	Generating Advertising Revenue from a Digital Screen Network at Harrods of London																	S	P	
34	Starbucks' Retail Strategy						P										S	S		
35	Yankee Candle: New Product Innovation														S					
36	Petsmart: Where Pets Are Family						S				S									S
37	Lindy's Bridal Shop							S	S					S				S		
38	Interviewing for a Management Trainee Position		P								S							S		

P = Primary Use; S = Secondary Use; C = Comprehensive

Introduction to Case Analysis

Case Analysis and Presentation Suggestions

- Case situations can be one of the most effective instructional methods for enhancing student involvement and stimulating understanding of retailing management concepts.
- When evaluating cases, students should address the following areas:
 1. background of the situation, including organizational factors and the external environment,
 2. the various concerns, issues, and problems evident in the situation,
 3. the main area of concern (main problem),
 4. alternative courses of action,
 5. evaluation of alternatives based upon the criteria selected for this purpose,
 6. selection of a course of action,
 7. plans for implementing the course of action, and
 8. identification of possible follow-up problems.
- As students prepare cases for class discussion and for written assignments, they should consider the following:
 1. carefully evaluate all information presented in the case,
 2. list all possible problems and concerns, being sure to look at causes of the problem area, not symptoms,
 3. use textbook material, current articles, and other resources (library materials, interviews, field observations) to research the situation, problem, and alternatives,
 4. be creative in developing alternative courses of action,
 5. assess each alternative based on the information in the case and the criteria established, and
 6. be ready to defend the selected course of action.
- For students to fully benefit from a case analysis assignment, they must PREPARE and PARTICIPATE in the discussion.

Case Method Teaching Resources

- The following instructional reference materials regarding the case method are available from Harvard Business School, Publishing Division, Operations Department, Boston, MA 02163-1098; write for details regarding cost and availability:
 1. Hints for Case Teaching (copy available upon request),
 2. Teaching and the case method (Christensen & Hansen),
 3. Instructors Guide to Teaching and the Case Method (Christensen, Hansen & Moore), and
 4. Note to Beginning Case Method Teachers (Christensen).
- A video, “Teaching by the Case Method” is available from the American Marketing Association, Video Cassette Offer, 250 South Wacker Drive, Chicago, IL 60606; contact AMA for details. The presentation addresses 1) how to conduct a case discussion, 2) evaluation of case participants, 3) constructing a case course, and, 4) implementing and evaluating a case course.
- Dozens of excellent websites dedicated to teaching with the Case Method may be found by typing “Case Method Teaching” or “Case Analysis” into your favorite Internet search engine.

CASE 1 – Tractor Supply Company

Synopsis: Tractor Supply Company (TSC) is a relative large, but unknown retailer that targets people seeking a rural lifestyle that operate farms or ranches as hobby.

Use:

- Chapter 1 Illustration of a retailer with a unique target market
- Chapter 2 Example of a specialty store retailer
- Chapter 5 Retailer with a well-defined strategy
- Chapter 18 Importance of service to retailer's target market

Discussion Questions

1. What is Tractor Supply Company's growth strategy? What retail mix does TSC provide?

TSC targets the hobby farmer/rancher, who are fully employed in jobs but want to enjoy a rural lifestyle and operate a farm or ranch in exurbs of a city. The retail mix of TSC is:

- Location – stores are in stand-alone location in commercial corridors in the exurbs
- Merchandise assortment – stock a wide variety of merchandise that provides everything the hobby farmer/ranchers needs. Probably shallow assortment
- Pricing – since competition is limited, TSC has flexibility in pricing – offer good, better, best price/quality tiers. EDLP
- Communication mix – emphasis on personal selling
- Store design and layout – spacious layout, informative signage
- Customer service – highly trained sales associates

2. How has TSC's target customers changed over time? Why?

Originally targeted full-time farmers but as the farming industry consolidated, the large farms bought directly from supplier bypassing retailers like TSC

3. How vulnerable is TSC to competition? What companies represent its primary competitors?

Not very vulnerable because the target segment is not price sensitive or very knowledge about the products it needs. Thus the target market is unlikely to be attracted to a low cost, low service retailer like Walmart. In addition, each rural area is relatively small and thus there is probably not enough business for multiple retailers targeting the small market with the same offering. Thus, after TSC enters a market, there would not be enough business in the market to entice a competitor to enter.

4. Why does TSC place so much emphasis on training employees?

Customer service is critical because the customers in the target market are not very knowledgeable about the tasks to be performed and the equipment needed to performance those tasks.

CASE 2 – Providing a Retail Experience: Build-A-Bear Workshop

Synopsis: Build-A-Bear Workshop is a unique chain of over a 100 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.

Use:

Chapter 1 Provides a general overview of a unique retail concept.

Chapter 2 Illustrates the retail strategy and operations of an innovative specialty retailer.

Discussion Questions

1. Is the Build-A-Bear concept a fad, or does it have staying power?

Children's fascination with huggable, stuffed animals, especially Teddy Bears, has only grown the last several decades. Build-A-Bear's core emphasis is on the giving children an environment of fun and play, while enabling them to create their own stuffed animal. Given that children may be less vocal in expressing the exact specification of a toy they want, the process of enabling them to build their own Teddy Bear gives them something that they would cherish and enjoy for a longer time as compared to a simple store bought stuffed animal. Moreover, Build-A-Bear ensures that its employees are very well trained and committed to service such that every experience for every child may be quite memorable. As long as the commitment and service continues and new ideas and innovations are brought into the store in terms of the weekly additions to bear styles, the concept does have some staying power.

2. What can Build-A-Bear do to generate repeat visits to the store?

For repeat visits, consumers (in this case, children) must be exposed to something novel and interesting during each visit. In Build-A-Bear's case, this is already happening with frequent changes to inventory and different bear styles arriving each week. Moreover, new and limited-edition animals are introduced frequently and regularly. Also, clothes and accessories are updated to reflect current trends. There are also different occasions or reasons to visit, such as holding or attending an in-store birthday party. The constantly changing styles, materials, inventory as well as different purposes for visiting the store would have the effect of generating repeat visits to the store.

Build-A-Bear could also offer more types of experience options, so that children have different new experiences during each visit.

CASE 3 – Walmart’s Sustainability 360

Synopsis: This case describes the evolution of Walmart and the way it really believes and acts on its slogan, “Save Money, Live Better,” in all respects of the business.

Use :

Chapter 1 Covers an overview of a very important part of Walmart’s marketing strategy.

Chapter 9 Walmart’s human resource management helps Walmart to motivate and take care of its employees.

Discussion Questions:

1. Is Walmart good for society? Would society be better off with or without Walmart?

Walmart formerly was not perceived as being good for society because its tremendous buying power allowed it squeeze profits from its suppliers and underpay its employees so that it could offer the lowest prices to its customers. It has also been accused of helping to put smaller retailers out of business through predatory pricing tactics.

Walmart appears to have changed, at least on some dimensions, and its public persona has improved as a result. It is now more concerned with the livelihood of its employees, its suppliers and its customers. It continues to improve its Sustainability 360 program, helping employees own lives, encouraging volunteering as well as lowering the its carbon footprint. Walmart is perceived by some to be good for society because it offers its customer the products they want for low prices. The pressure to drive down prices from Walmart challenges other competing retailers to also drive down their costs and offer a good value.

2. Walmart says that it creates new markets for small- and medium-sized businesses and that it supports growth and innovation for these businesses. For some of these suppliers, Walmart is their primary customer, which means the business owners have little choice about adopting Walmart’s standards. Do you think this is fair? Do you think Walmart’s powerful position helps these business owners or hinders them?

Walmart’s standards are beneficial to everyone if they include reducing the amount of waste, or improving a product to make it more environmentally friendly. Walmart’s input drives down costs for everyone. If Walmart develops a business and encourages them to increase their capacity to suit the retailer and then Walmart decides that it no longer wants to do business with them, then this would not be fair.

3. Walmart’s sustainability program addresses each of the criticisms leveled against it. If a company is forced to launch an initiative to prevent falling sales or public relations problems, do you think the company is fully committed to those efforts? How could you tell if the company was making progress toward its stated goal?

Walmart did respond to the criticism against it that it consistently was unfair to its employees and suppliers. Walmart has shown that it is fully committed to its Sustainability 360 program and continues to build on and succeed at its core values. By reviewing the company’s

Sustainability report, one can see the progress that they have made since it started the program as well as its future goals.

- 4. Walmart's Sustainability Index is intended to provide a consumer-facing ranking of a product's sustainability across its life cycle. Would this ranking influence your buying decisions? Why or why not?**

Yes, it would influence my buying decisions. I would not go out of my way to pay a lot more for a product that had a higher sustainability index, but it is an important factor to consider. If the products are similar in their benefits and price and have different sustainability indices, then I am likely to purchase the product with the higher index.

CASE 4 – Netflix Personalizes the Customer’s Experience

Synopsis: This case describes the movie rental competitive environment and how Netflix has developed a niche in the market. The future holds many obstacles including changes in technology and consumer preferences.

Use:

Chapter 3 Illustrates the multiple distribution channels Netflix has created for movie delivery to customers.

Chapter 18 Netflix provides even better customer service than its competitors despite not having a physical store presence.

Discussion Questions:

- 1. In exchange for greater amounts of streaming content, Netflix has begun making deals with major movie studios that delay the release of DVDs and blu-rays by 28 days. This gives brick-and-mortar stores, e-commerce sites and cable and satellite companies a window of time where they carry movies that Netflix cannot. Are these types of deals beneficial to Netflix? Why or why not?**

Netflix’s customers enjoy a wide range of movies, not just new releases. Their customers value the array of title options as well as the access to downloadable streaming content. It is beneficial to Netflix to focus on a different core competency than the other video rental retailers, which mainly rent new releases. The titles that Netflix customers choose also improve its recommendation system; whereas Blockbuster customers may choose a movie just because it just came out rather than whether the content of the movie is good or bad.

- 2. Should Netflix charge for streaming content or continue to provide it without limit as part of its physical media offerings? Why or why not?**

Sooner or later the other movie rental companies will also offer streaming content downloadable to a computer. At this point, Netflix could charge for it because customers value the offering. Right now, Netflix is gaining customers by allowing them to have access to the streaming content.

- 3. What are some of the potential problems Netflix will face in the near future as the company continues its reliance on DVD and blu-ray offerings by mail?**

In the future, customers may only use streaming movie content instead of waiting a day to receive it by mail. Netflix is heavily invested in distribution centers to facilitate mail order deliveries. Netflix has already began partnering with set top box and cable companies to deliver the streaming content to the customer’s TV seamlessly.

CASE 5 – The Sanchez Family Buys Bicycles

Synopsis: The Sanchez family buys three bicycles--one for their daughter, one for their son, and one for the father. This case illustrates the steps customers go through buying a bicycle for their children and themselves. Can be used to discuss the stages in the buying process, the factors affecting the purchase decision, and how the purchase decision differs depending on the buyer's knowledge and needs.

Use:

Chapter 4 Discuss stages in buying process and factors affecting purchase decision. Illustrates what stages consumers go through and what information they consider when selecting a retailer and purchasing merchandise

Discussion Questions

1. Outline the decision-making process for each of the Sanchez' bicycle purchases.

The stages in the decision process shown in Exhibit 4-2 are listed down the left-hand column below. Then the event associated with each of the three bicycle purchases is associated with each of the stages. As indicated in the text, not every purchase decision goes through all of the steps. Also the students should recognize that more time might be taken at specific stages than others.

Step in Buying Process	Daughter	Son	Father
Store Choice			
<i>Need Recognition</i>	(4) locate store selling bicycles		(6) goes in convenient bicycle shop
<i>Information Search</i>	(5) call store	(4) saw Montgomery Ward ad	(5) can't locate brand
<i>Evaluation And Choice</i>	(6) select dept. store for low prices		
<i>Postpurchase Evaluation</i>			
Merchandise Choice			
<i>Need Recognition</i>	(1) \$100 from grandparents for bicycle	(1) \$200 from grandparents for bicycle	(1) buying bike for Mark
<i>Information Search</i>	2) look in Penny's' catalog	(2) internal search through memory for information on last purchase (5) looked at bicycles on display	(2) external search, libraries, magazines
<i>Evaluation and Choice</i>	(3) high weight on blue color (Judy) and low cost (mother) (7) select bike satisfying criteria	(3) high weight on durability, 10-speed, red, light weight, accessories (6) selected bike satisfying criteria except accessories	(3) high weight on light weight, durability. Flexible set up (4) select Serrsto (7) test ride (8) buys bike
<i>Post Purchase Evaluation</i>	(8) dissatisfaction with choice; chrome rusted, poor tires		

2. Compare the different purchase processes for the three bikes. What stimulated each of them? What factors were considered in making the store choice decisions and purchase decisions?

The process for both son and daughter were stimulated by the \$50 gift from their grandparents. Buying a bike for the son and remembering his pleasant experiences riding a bike stimulated father's purchase decision process.

For the daughter, calling stores selling bikes and locating the store with the lowest prices made the store decision. Note that they first called Toys 'R' Us because of its low price reputation, but then found that due to a sale the department store had lower prices. Price and a blue color were the principal considerations in selecting a bike.

For the son, the store choice was based on seeing an ad. Durability and style of bike were the principal criteria. Accessories were very important before seeing the bikes, but the importance diminished when the actual choice was made.

For father the choice was based on finding a store that stocked the brand of bike he wanted. When he could not find the brand, he stopped his decision-making process. However, the process started up again when he went into a shop that was convenient to where he worked. Durability and flexible set up were the most important characteristics.

Note that the least time was spent selecting the daughter's bike and the most spent on father's bike. The daughter's bike was more extensive solving then Mark's bike, but less than the father's.

3. **Go to the student side of the Online Learning Center (OLC) and click on multiattribute model. Construct a multiattribute model for each purchase decision. How do the attributes considered and importance weights vary for each decision?**

<i>Attribute</i>	<i>Importance Weights</i>		
	<u>daughter</u>	<u>son</u>	<u>father</u>
Price	10	6	7
Color	10	10	1
Flexible setup	-	-	9
Weight	4	7	9
Durability	3	10	9
Brand name	-	-	6

CASE 6 – Retailing in India

Use:

Chapter 1 Example of the retail industry evolving globally

Chapter 2 Differences in retail formats in India and the U.S.

Chapter 4 Illustrates differences in shopping behavior across the globe

Chapter 5 Example of international retailing and entering a foreign market

Discussion Questions

1. How can a hypermarket located in India reach out to more experienced consumers and orient them to shopping in their stores?

- It will be hard initially for a large retailer to initially attract consumers who have shopped in mom and pop stores their entire lives in India due to traditions of not living beyond their means.
- The layouts of the stores are direct contradictions to the local vendor older generations of Indians have purchased their goods from.
- It will be important for any potential retailer in India to teach these consumers how shopping in their stores will make their lives more efficient.
- Instead of shopping at multiple local shops to get all that is needed, all goods can be purchased in one place for affordable prices.
- It is worth targeting these consumers because they still represent a large portion of Indian consumers.
- Even though younger adults represent the majority of the population, targeting older consumers and recognizing their importance speaks to the hypermarket's willingness to meet all Indian's consumer needs.

2. What does it say about the Indian Government concerning the fact that they are willing to spend \$150 billion (U.S.) to improve the nation's infrastructure? Is this good news for international retailers?

- If the Indian Government is willing to spend so much money to improve the capabilities of the country, they are expressing their commitment to hypermarkets and organized retailing in general.
- The government is also recognizing the problems within the country. However it is interesting that these strides were not taken to improve the conditions local vendors worked under.
- Since a majority of consumers shopped for their produce on a daily basis, the improved conditions will help reduce waste and increase the supply to meet the large demand.
- This is good news for international retailers because it is showing them that the government is for improving the economy through growth in the retail sector.
- It is important to realize that the commitment from the government is only the first step. Massive changes to a nation's infrastructure will take years to accomplish. International retailers have to be willing to deal with much inefficiency at first in order to be successful.

Uses of Ancillary Cases

		Chapter																	
#	Title	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	Wedding Channel.com		S	P	S														
2	Dollar General and Family Dollar: Value Retailers	S	S			P													
3	Abercrombie & Fitch: Hiring for Looks									P									
4	Salon-Only Hair Care Products Outside the Salon													P					
5	SaksFirst Builds Customer Relationships											P						S	
6	Men's Wearhouse					S							P	S				S	
7	Borders																P		
8	GAP and Old Navy	P	P		S	S												S	S
9	Blue Sky Surf Shop	P	S		S														
10	Cleveland Clinic	P	P	P		S													
11	Niketown	P	P		S	S												S	
12	Simon and Smith		P		P	P													
13	Marquette Army/Navy Surplus	P	S			S													
14	Bloomingdale's				P													S	C
15	Toys R Us			S	S	P													
16	Retailing in China				S	P													
17	To Move or Not to Move							P											
18	Winn-Dixie and Dillard						P												
19	The Computer Shoppe										P	S				S			
20	Neiman Marcus Preferred Customer Program											P							
21	Merchandise Planning Problems												P						
22	Urban Outfitters												P		S				

Uses of Ancillary Cases (cont'd)

		Chapter																	
#	Title	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
23	Stan's Shirts														P				
24	Pricing Problems														P				
25	Dexter Brown																P		
26	Tardy Trainee																P		
27	River Valley Gourmet Shop												P			P			
28	Late Delivery												P						
29	Whom to Pay												P						
30	Negotiating with a Vendor																		
31	Stockwork													P					
32	Check this System Out																		
33	Closing a Sale																P		
34	Fuller's									S							P		
35	Rainforest Café	P	S					S										S	
36	Should Retailers Use Blogs?			P	S											S			
37	Malls Away - Buying Online Vs. In-Store	S	S	P															
38	Home Depot - Company in Transition					S				P									
39	Nolan's - Category Management												P					S	
40	Macy's Rebranding Strategy					S										P			
41	Restaurant promotion	S	S														P		
42	Grocery Store Layout																	P	

P = Primary Use; S = Secondary Use; C = Comprehensive

Case A1: [Wedding Channel.com](http://WeddingChannel.com)

Anne is sitting at her desk eating her lunch and surfing the Internet. For a few months, she has been preparing for her wedding, which will take place in less than a month. She found many helpful articles that gave her some good ideas. These articles also helped her face reality and change her childhood dreams of a white carriage pulled by a team of white horses to a stretch limo. She gave up the Snow White wedding gown with a 15-foot train and has now settled on a sleek sheath gown.

In planning her big day, Anne used the help of WeddingChannel.com to make a checklist of what she needs to do. The Web site helped her organize a guest list, design and buy her invitations, set up a gift registry, and post some information for her friends about how she and Steven met. They met in college and are from different cities; therefore, they decided to have their wedding somewhere in between where their friends and family could meet. She used the resources provided on WeddingChannel.com to book the chapel and restaurant where the reception would be held.

Every year, \$72 billion is spent on weddings in the United States. The average American wedding ceremony costs \$22,000. The average age of brides is 24.5, while the average groom is 26.5 years of age. With the statistics, it is no wonder the WeddingChannel.com has become so popular. Its target market is 18 to 35 years old. Approximately 48 percent of engaged couples plan to use the Internet to help plan their wedding. WeddingChannel.com's goal is to help couples make their special day easier to plan and save time finding up-to-date information.

WeddingChannel.com began on July 15, 1997. The venture has helped not only brides-to-be but also retailers. Over \$100 million was spent purchasing gifts through the site in 2003. WeddingChannel.com's patented registry system searches 1.5 million registries from its many retail partners including Macy's, Tiffany&Co., Crate and Barrel, Neiman Marcus, Williams-Sonoma, Pottery Barn, REI, JCPenney and others.

With access to so many registered couples, WeddingChannel.com has an attractive market. "Consistently, our targeted marketing tactics have resulted in five times the Internet response rate, providing the most effective platform for companies to build their brand messages during a significant life stage when brand loyalties are being developed," said Adam Berger, president and CEO of WeddingChannel.com. About 89 percent of all gift purchasers buy wedding gifts from a registry.

WeddingChannel.com is not only the largest bridal registry online, but is also provides a comprehensive site that couples can use to plan their wedding. WeddingChannel.com is a virtual community that provides services for couples who have many questions. Where do brides start first? Most start with finding the perfect dress. WeddingChannel.com offers over 20,000 styles of wedding gowns, including both designer brands and less expensive brands. It also provides a great way to sort through the many different styles by offering different buttons to select sleeve length, silhouette, length, and neckline. It even has a virtual model so the bride-to-be can see how she would look in a particular style of gown. The site also provides many interactive tools that help couples make a budget, guest list, wedding page, and registry. There are also many articles that range from finding a reception site to planning a dream honeymoon.

WeddingChannel.com is unique because it is a comprehensive destination for couples planning their wedding. This interactive Web page allows for couples to make a customized Internet page describing how they met, how they became engaged, their wedding party, and the theme/colors for the big day. Guests can go online and shop at the well-known stores associated with WeddingChannel.com and conveniently purchase exactly what the couple needs for their future together.

Discussion Questions

1. What are the keys to making WeddingChannel.com a success from the perspective of companies investing in it?
2. Why would a retailer want to invest in a virtual community like WeddingChannel.com?
3. Can you think of other retailers that might benefit from developing a virtual community?

Source: This case was written by Teresa Scott, University of Florida

Teaching Notes

Case A1: [Wedding Channel.com](http://WeddingChannel.com)

- Synopsis: [Wedding Channel.com](http://WeddingChannel.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.
- Use: Chapter 2 Illustrates how traditional retailers benefit from partnering in an online venture.
- Chapter 3 Identifies the business model, strategies, and sources of consumer value for a specialty Internet retailer.
- Chapter 4 Describes the consumer behavior issues in planning a wedding and how consumers could obtain information and planning tools from the Internet.

Discussion Questions

1. What are the keys to making WeddingChannel.com a success from the perspective of the companies investing in it?

WeddingChannel.com provides an excellent opportunity for firms, such as Federated department Stores, Inc., Neiman Marcus Group, Tiffany & Company, Crate & Barrel, and Williams-Sonoma to gain additional sales and revenue associated with wedding registries and gifts. The site provides planning information as well as interactive tools, such as guest lists, wedding page, and registry. Moreover, the site also answers many critical questions for would-be brides and grooms, including budget issues and the types of products to buy. This type of information is typically provided in-store by trained sales personnel interacting one-on-one with those being wed and their numerous guests. The WeddingChannel is more cost efficient than other alternatives for attracting customers who need these comprehensive planning and information tools as well as helps the firm build a platform for enhancing their brand awareness and Internet presence. With almost a million registered customers and an average wedding ceremony costing \$20,000, the WeddingChannel is an excellent brand promotion and sales opportunity for the firms providing it with capital. Even for non-retail venture capital firms, the business model of the site, referrals and clicks generated make it a good portal business.

2. Why would a retailer want to invest in a virtual community like WeddingChannel.com?

A virtual community like WeddingChannel.com only grows through word-of-mouth as well as word-of-mouth. Not only do would-be brides and guests referring the site to their own wedding page to guests and friends, these guests and friends, having been exposed to the site, may also end up planning their own weddings through the site. The more the number of participants and their diverse questions, the more comprehensive the site gets, thereby becoming more valuable to the visitors to the site. The consumer value and benefits would certainly prompt more referrals and the site's visitor base is bound to grow. Even with one million couples registered, the site already provides a very attractive platform for retailers to build their brands, promote their products and services and enable consumers to shop at

their stores. Increases in information, participation, and positive word-of-mouth through the expansion of the virtual community would only benefit retailers even more over time.

3. Can you think of other retailers that might benefit from developing a virtual community?

A virtual community could be formed for any occasion where shoppers may need specific and expert information and tools not readily or conveniently available through physical stores. Virtual communities could be formed for various lifestyles, including aerobics and physical training, body-building, bicycling, motorsports, surfing, skiing, mountain-climbing, hiking, to name a few.

Virtual communities could also be formed for specific projects/events, including planning parties, holiday get-togethers, reunions, or for lifestyle target markets, such as do-it-yourselfs, working mothers, soccer moms, retirees, to name a few.

In all these cases, retailers obtain a clear and well-defined target segment – one that prefers to be informed and educated. The costs of marketing to such informed and educated customers are; of course, lower than training sales people and delivering such information one-to-one to customers in a retail store setting.

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

Dollar General, headquartered in Goodlettsville, Tennessee, and Family Dollar, based in Matthews, North Carolina, are the two leading retailers in the fastest growing segment of the industry, referred to as extreme value retailing. In 2005, Dollar General had over 7,500 stores in 30 states with sales surpassing \$7 billion. Its annual growth in sales has been above 20 percent for the last six years. Family Dollar, with 5,600 stores in 44 states, generated over \$5 billion in sales in 2004. Both retailers are opening new stores at rates exceeding a store a day.

The extreme value retail format has become increasingly popular among a variety of customers, including rural and urban shoppers, low- to middle-income young families, ethnic groups, and older customers with fixed incomes. Consumers have come to trust both of these retailers to provide good quality merchandise at low prices without the hassle of crowds and lines. The breakdown by geographic segments is 25 percent rural, 33 percent urban, and 44 percent suburban. This distribution is about the same as the sales distribution for Wal-Mart and Kmart stores. About 25 percent of U.S. households shop at an extreme value retailer once a month.

Sometimes these firms are grouped under the category of dollar retailers – retailers that sell merchandise priced under one dollar. While Dollar General and Family Dollar keep their prices typically under \$15, most of their merchandise is priced over a dollar. Family Dollar has multiple price points whereas Dollar General prices its merchandise at even-dollar price points.

About 50 percent of the merchandise sold in the stores is consumables (pet supplies, food, paper, household cleaning and personal care products), with the remaining sales equally divided among basic clothing, hardware and seasonal merchandise, and home products. The percentage of consumable sales has been increasing over the past five years. Basic stock is supplemented with opportunistic buys of closeout/liquidation and impulse merchandise giving the impression of a changing merchandise mix in the stores. Vendors are developing new products and packaging to meet the needs of these extreme value retailers. For example, Fruit of the Loom typically sells men's underwear in a nine-pack, but it offers small packs to value retailers. Procter & Gamble and Johnson Products also sell smaller sizes of hair care products with lower retail prices to extreme value chains.

Most of their locations are in the Southeast, where the companies are headquartered. The stores are small, 6,000 to 8,000 square feet, primarily located in small towns with populations under 40,000 and in suburban strip shopping centers. Because the stores are relatively small, it is easy to find good locations in almost any market the retailers choose to enter.

Initially, these extreme value retailers focused on low-income communities that were too small to support a large Wal-Mart or Kmart discount store. Residents of these towns appreciate the convenience of buying merchandise close to their homes rather than driving 30 minutes to a discount store in a larger town. Many of their customers can walk to the stores. Not only are the stores closer to customers, but shoppers are able to park closer to the stores in uncrowded parking lots and avoid long checkout lines. With a small store, customers can get in easily, find what they are looking for, and get out in a few minutes. The average transaction is between \$8 and \$9. To maximize operating efficiencies, the retailers typically open a cluster of stores in a geographic area before entering a new area. Dollar General and Family Dollar are now opening stores in suburban strip shopping centers, using space that has been abandoned by drugstores that moved to stand-alone locations.

At one time, these extreme value retailers advertised sales using circulars. But both Dollar General and Family Dollar reduced their advertising expenses when they converted to an everyday low-pricing strategy. This cost saving allowed the retailer to pass even more savings on to their customers.

A recent Family Dollar annual report stated, "Supply chain efficiencies are vital to the success of any retailer, particularly one growing as fast as Family Dollar." Thus, Family Dollar and Dollar General are making significant investments in point-of-sale terminals, store-level inventory tracking systems, automated distribution centers, space allocation software, and replenishment systems to reduce stockouts and increase inventory turnover.

Discussion Questions

1. What is the target market for extreme value retailers like Dollar General and Family Dollar?
2. Why are customers increasingly patronizing these extreme value retail stores?
3. How do extreme value retailers make a profit when their prices and average transactions are so low?
4. Can extreme value retailers defend themselves against merchandise discount retailers like Wal-Mart, or will Wal-Mart eventually drive them out of business? Why?

Source: This case was written by Valerie Bryan, University of Florida

Teaching Notes

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.

Use:	Chapter 1	Provides an introduction to extreme value retailers and their role in the retail landscape.
	Chapter 2	Describes the strategy and operations of extreme value retailers.
	Chapter 5	Illustrates the retail market strategy, including target market, customer benefits, and competitive considerations in extreme value retailing.

Discussion Questions

1. What is the target market for extreme value retailers like Dollar General and Family Dollar?

Initially, the target market for extreme value retailers like Dollar General and Family Dollar were low-income communities too poor and unattractive for large discount stores such as Wal-Mart or K-Mart. Low-income consumers wanted the convenience of buying merchandise in-town, preferably by walking to the store, rather than drive 30 minutes to a discount store. Nowadays, it appears that anyone interested in low prices without having to drive longer distance to a discount store, cope with the hassles of parking and the maze of too many aisles and long checkout lines, could be a target consumer for Dollar General and Family Dollar. This is evident by statistics – geographically, 25% of the consumers live in rural areas, 33% urban and 44% in suburban areas. The consumers include low- to middle-income young families, ethnic groups and older customers with fixed incomes. Moreover, about 25% of the U.S. consumers shop at a value retailer once a month.

2. Why are customers increasingly patronizing these extreme value retailer stores?

Consumers have increasingly come to trust extreme value retailers to provide good-quality merchandise at low prices without the hassle of crowds and lines. Most consumable products are available at low prices such as basic clothing, hardware, seasonal merchandise and home products. Consumers have to buy in large quantities to get low price advantages in warehouse clubs. At extreme value retailers, on the other hand, customers can purchase smaller packages and still get similar low prices. Due to strip shopping locations and smaller size stores, consumers can often walk to the store instead of driving long distances. Also, they don't have the hassle of finding a parking space and walking a longer distance from the parking lot to the store. Moreover, the stores are typically not crowded and the checkout lines are very short. With these price advantages and convenience benefits, extreme value retailers are a hit, especially for customers who are budget-constrained.

3. How do extreme value retailers make a profit when their prices and average transactions are so low?

Extreme value retailers incur lower costs of operations, opening at suburban strip malls and other locations typically vacated by other retailers. Parking space and store layout costs are minimal. The need for experienced and trained sales staff is also low. All these significantly reduce the operations costs. Since most of their merchandise comes from opportunistic buying of closeout and liquidation stocks of other retailers, the costs of goods are lower than buying from manufacturers or wholesalers. With extreme value retailers becoming an increasingly strong retail type, manufacturers are attentive to their needs, offering products in smaller package sizes that can be sold at such retailers more efficiently. Moreover, extreme value retailers have adopted an everyday low price strategy, thus obviating the need for costly flyers and advertising circulars.

Some extreme value retailers, such as Family Dollar and Dollar General are now making investments in point-of sale terminals, store-level inventory tracking systems, automated distribution centers, space allocation software, and replenishment systems to reduce stockouts and increase inventory turnover. All these would further make extreme value retailers more efficient in their operations and help reduce costs, and hence prices further, despite the smaller average transaction sizes.

4. Can extreme value retailers defend themselves against general merchandise discount retailers like Wal-Mart, or will Wal-Mart eventually drive them out of business? Why?

General merchandise discount retail stores such Wal-Mart need a larger customer base to be profitable. As such, their location strategy is clearly oriented towards larger towns or centered in the middle of several nearby towns. On the other hand, extreme value retailers thrive in smaller locations, often found in strip shopping centers. This niche location strategy helps extreme value retailers capture more of the neighborhood consumers, especially those who cannot or do not want to drive longer distances to a Wal-Mart. While extreme value retailers are well-poised in terms of locations, they are still susceptible to the one-stop shopping convenience and everyday low prices of a Wal-Mart. However, the major competitive advantage for extreme value retailers comes a combination of location, low prices and no-hassle shopping – something that can stand the competitive challenge of Wal-Mart's assortment and prices.

Wal-Mart may drive the extreme value retailers out of business in its own immediate vicinity, but extreme value retailers in suburban strip shopping centers can effectively withstand the competitive onslaught of Wal-Mart and continue to thrive.

Case A3: Abercrombie & Fitch: Hiring for Looks

Clothing retailer Abercrombie & Fitch often recruited on college campuses and in the mall to find attractive young people and then urged them to apply for jobs. This company, known for building an attractive workforce, did so by aggressively hiring pretty young women and handsome young men to match their all-American brand image. Abercrombie & Fitch refers to these great-looking sales associates as brand ambassadors. They project the retailer's brand and make the store a better experience for customers.

Is seeking good-looking employees a necessary trend in the retail industry? Is hiring an attractive sales force a smart and necessary practice to differentiate the store in the competitive retail environment? Do salespeople need to mirror the images seen in the retailer's catalog and home page? Does all-American mean thin, tall, and white with blonde hair and blue eyes? If the store has great-looking college students working in the store, will others want to shop there? How important are retail experience and ability versus a pretty face?

In seeking good-looking employees, companies are risking lawsuits for discriminatory hiring practices. Hiring attractive people is not illegal, but discrimination on the basis of age, gender, race, national origin, disability, or ethnicity is. Employers may establish and enforce grooming and appearance standards. Exceptions to Title VII are possible if the employer can prove that one of the protected characteristics is a bona fide occupational qualification.

In 2003, Abercrombie & Fitch was named in two class-action lawsuits alleging discriminatory hiring practices. Black, Asian, and Latino plaintiffs alleged that they were denied sales associated positions. These workers were directed to low-visibility jobs in the stock room or maintenances department. Abercrombie & Fitch did not admit guilt and denies that it engaged in any discriminatory practices but settled these cases for \$40 million distributed to several thousand minority and female plaintiffs. The company agreed to appoint a vice president for diversity, use benchmarks, train all hiring managers, and hire 25 diversity recruits in an attempt to alter its white, all-American image and more accurately reflect the applicant pool in its stores. The settlement also calls for Abercrombie & Fitch to increase diversity in its promotional materials.

DISCUSSION QUESTIONS

1. Why would Abercrombie & Fitch want to hire employees with a certain look?
2. From a business perspective, do you think this is a good idea? What about from an ethical perspective or a legal perspective?

Source: This case was written by Hope Bober Corrigan, Loyola College in Maryland.

Teaching Notes

Case A3: Abercrombie & Fitch: Hiring for Looks

Synopsis: Clothing retailer Abercrombie & Fitch often recruited on college campuses and in the mall to find attractive young people and then urged them to apply for jobs. This company, known for building an attractive workforce, did so by aggressively hiring pretty young women and handsome young men to match their all-American brand image. Abercrombie & Fitch refers to these great looking sales associates as brand ambassadors. They project the retailer's brand make the store a better experience for customers.

Use: Chapter 9 Generate discussion about the retail hiring process.

Discussion Questions

1. Why would Abercrombie & Fitch want to hire employees with a certain look?

Hiring employees with a consistent look is one way to visually let the target market know you are the right retailer for them. If all the employees look like the target market wants to look, this sends a clear signal about the store's image and which customers it aims to serve. Another aspect of this unified and specific look is to reinforce the retail brand's image through live examples in every store, every day.

2. From a business perspective, do you think this is a good idea? What about from an ethical perspective or a legal perspective?

Yes, hiring for looks is an ethical business practice.	No, hiring for looks is an unethical business practice.
<ul style="list-style-type: none"> - Being plain or unattractive is not considered a disability and therefore is not covered under Title VII - It is not a violation of federal anti-discrimination laws to hire for looks - Being attractive is a bona fide occupational qualification in retail stores because appearance is valued by customers - Grooming and appearance are essential to be successful in sales - Sale people must reflect the store's brand equity, image and atmosphere to attract the target consumer in today's competitive retail environment - Employees must match the retail concept - All aspects of the store should be consistent with the other promotional materials including the appearance of the sales associates 	<ul style="list-style-type: none"> - Hiring for looks is another way to discriminate against women, minorities, the elderly, and people with disabilities - Hiring should be on the basis of retail skills, experience, ability and competency - Who decides what is attractive in the first place? Isn't it based on the employer's race, religion, country of origin or age? - Attractiveness standards are vague and create unfair hiring policies - Retailers are setting themselves up for violations of EEO laws and discrimination suits when they use a "hiring for looks" policy - Too many people in the US are over-concerned with beauty and appearance. Our beauty standards, based on models and actors, are not realistic for the "average" employee - Having diversity in the workforce will bring wider diversity in the customer group

Case A4: Salon-Only Hair Care Products Found Outside the Salon

High-end, salon-only hair care products have been showing up on the shelves at grocery stores, discounters, and drugstores. Premium brands such as Nexxus, Paul Mitchell, Redken, Rusk, and Sebastian are clearly marked with “For Sale in Professional Salons Only.” However, these brands are being sold through mass-market chains in addition to the exclusive salon-only channel. This practice is known as diverting products from the intended channel of distribution. Is this practice illegal? Currently there is no legislation prohibiting mass retailers from selling premium brands. Because a strong gray market exists for professional hair care products, drug chains, discounters, and food retailers offer salon-only brands in the same health and beauty aisles as the mass-market hair care brands. These high-demand hair care lines are also available through online retail sites.

When beauty supply distributors or wholesalers break contractual agreements with manufacturers, the makers of salon-only brands lose millions of dollars and risk their exclusive brand image and reputation when their products are sold in stores. Improperly diverted hair care products are estimated to be valued at up to \$800 million of the industry’s \$29 billion in annual sales.

On the Paul Mitchell Web site (www.paulmitchell.com), the company is reminding customers to fight against the manufacturing, distribution, and retailing of counterfeit products through its Product Control Campaign. This education program is designed to warn customers of the possible danger of purchasing the Paul Mitchell brand from intermediaries other than professional salons. The risks associated with purchasing diverted products include possible tampering, expiration, contamination, or substitution.

DISCUSSION QUESTIONS

1. How do customers, manufacturers, salons, and retailers react to the practice of diverting “salon-only” products to discounters, drug chains, and grocery stores?
2. Will the education campaign launched by Paul Mitchell change where consumers shop for professional hair care products? Explain your rationale.

Source: This case was written by Hope Bober Corrigan, Loyola College in Maryland.

Teaching Notes

Case A4: Salon-Only Hair Care Products Found Outside the Salon

Synopsis: The describes the merchandising practice called “diverting”, moving products from their intended channel of distribution to high-end, high-service salons to mass merchandise discounters, drugstores and supermarkets. These products are also available online at through online drugstore sites.

Use: Chapter 14 Examines the merchandising practice of diverting and its impact on supply chain relationships.

Discussion Questions

1. How do customers, manufacturers, salons, and retailers react to the practice of diverting “salon-only” products to discounters, drug chains, and grocery stores?

Customers

- Found their favorite brands for a lower price at a more convenient location
- Confused to see the premium brand being sold outside of the salon
- Satisfied if the diverted product is genuine
- Disappointed or at risk if the diverted product is counterfeit or not a match for their hair type, cut or color

Manufacturers

- Lost sales
- Diminished brand equity when their products are distributed in an intensive manner
- Lowered expectations of status and quality
- Risk that brand loyal customers will not have a consistent experience with the hair-care products when they are purchased outside of the salon
- Customers won’t buy products best suited for their needs without the advice of their hairdresser
- Some manufacturers have decided to employ their own sales representatives and stop using beauty supply distributors or wholesalers to avoid the problem of diverted goods

Salons

- **Have to sign contracts with the manufacturers that they will carry the full professional line and that they will sell only to individuals and not resell to other channels**
- Want the clients to visit the salon when they need additional hair-care products to drive frequent traffic to the shop
- Want to make product recommendations to the client so they purchase the brands best suited for their hair cut, texture and color

- Like offering a full line of professional hair-care products; it improves the status of the salon
- Margins are good on these products

Retailers

- Want to offer a full line of hair-care products
- Premium lines are in demand
- Margins are higher on salon products than for mass-market brands
- Not doing anything wrong

2. Will the education campaign launched by Paul Mitchell change where consumers shop for professional hair care products?

- Some customers will be motivated to save a few dollars or not make another trip to the salon to purchase their shampoo, conditioner, etc. and will continue to shop at grocery stores, discounters and drug chains
- Some shoppers will feel that the risk of tampering, substitution and contamination is too great and will be more comfortable buying professional hair-care products only through a salon

Case A5: SaksFirst Builds Customer Relationships

It's Wednesday afternoon, and as usual, Gwendolyn has a fitting room ready for Mrs. Johnson. She has picked out some of the new items in Mrs. Johnson's size that came in the previous week. She has everything from scarves to jewelry to shoes ready to go along with the outfits.

"Good evening, Mrs. Johnson. So how was your birthday?" Gwen asked.

"It was wonderful. My husband took me to Italy. Thank you for the card."

"I pulled some new items for you to try on." Gwendolyn said.

"Thank you, Gwen. You are the best!" replied Mrs. Johnson.

The reason Mrs. Johnson has such a friendly relationship with Gwen is because Mrs. Johnson is a regular customer and a SaksFirst member.

Saks Fifth Avenue started in the early twentieth century. Saks is considered the epitome of class, style, and luxury. When customers go to Saks, they receive excellent customer service, when they join SaksFirst – started in 1994 – they also receive a lot of additional benefits. SaksFirst is a preferred customer program that helps facilitate more personal customer sales associate relationships.

To become a member, a customer has to have a Saks Fifth Avenue credit card, and once she or he spends at least \$1,000 a year, the customer is automatically enrolled. For every dollar spent, the customer will receive a reward point. At the end of the year, preferred customers receive 2, 4, or 6 percent in bonus points based on how much they charged that year above \$5,000 at Saks. SaksFirst customers receive many exclusive benefits. The tangible benefits include the points, rewards, and discounts. Customers also receive complimentary shipping and delivery for catalog and online orders, advance notice of sale events, the SaksFirst newsletter, catalogs, promotions and giveaways, double- and triple-point events, and double points on their birthdays. The intangible benefits include recognition and preferential treatment.

For the retailer, the main purpose of the SaksFirst program is to promote excellent customer service. The better the relationship between the customer and the sales associates, the more money loyal customers will spend. Every year there is a triple-point event in the first week of November. That one-day event accounts for the highest volume sales day of the year, higher than the day after Thanksgiving or Christmas. Knowing this, the company understands the importance of the preferred program.

The SaksFirst program can also be used by sales associates as a selling tool. If a customer is uneasy about purchasing large-ticket items, the sales associate can remind the member of the bonus certificate that will return a percentage of the cost. Sales associates are motivated to enroll as many of their customers as they can because they are given incentives such as "lottery tickets" that are redeemed for cash.

DISCUSSION QUESTIONS

1. How does SaksFirst build loyalty for Saks Fifth Avenue versus other upscale retailers (such as Nordstrom)?
2. How effective is the SaksFirst program in developing customer loyalty?

Whom should Saks target the SaksFi