

An Overview of Strategic Retail Management

Welcome to *Retail Management: A Strategic Approach*. We hope you find this book to be as informative and reader-friendly as possible. Please visit our Web site (www.pearsoned.ca/bermanevans) for interactive, useful, and up-to-date features that complement the text—including chapter-by-chapter hot links, a study guide, and a whole lot more!

In Part 1, we explore the field of retailing, the establishment and maintenance of relationships, and the basic principles of strategic planning and the decisions made in owning or managing a retail business.

- **Chapter 1** describes retailing, shows why it should be studied, and examines its special characteristics. We note the value of strategic planning and include a detailed review of Loblaw's. We then present the retailing concept, along with the total retail experience, customer service, and relationship retailing. The focus and format of the text are detailed.
- **Chapter 2** looks at the complexities of retailers' relationships—with both customers and other channel members. We examine value and the value chain, customer relationships and channel relationships, the differences in relationship-building between goods and service retailers, the impact of technology on retailing relationships, and the interplay between ethical performance and relationships in retailing. The chapter ends with Appendix 2A, on planning for the unique aspects of service retailing.
- **Chapter 3** shows the usefulness of strategic planning for all kinds of retailers. We focus on the planning process: situation analysis, objectives, identifying consumers, overall strategy, specific activities, control, and feedback. We also look at the controllable and uncontrollable parts of a retail strategy. Strategic planning is shown as a series of inter-related steps that are continuously reviewed. At the end of the chapter, Appendix 3A discusses the strategic implications of international retailing.

Chapter 1

An Introduction to Retailing



Reprinted by permission.

A perfect example of a dream come true is the story of Sam Walton, the founder of Wal-Mart (www.walmart.com). From a single store, Wal-Mart has grown to become the world's largest retailer (in terms of revenues).

As a store owner in Bentonville, Arkansas, Sam Walton had a simple strategy: to take his retail stores to rural areas of the United States and then sell goods at the lowest prices around. Sam was convinced that a large discount format would work in rural communities.

Walton's first discount store opened in 1962 and used such slogans as "We sell for less" and "Satisfaction guaranteed," two of the current hallmarks of the company. By the end of 1969, Wal-Mart had expanded to 31 locations. Within a year, Wal-Mart became a public corporation and rapidly grew on the basis of additional discount stores, its supercentre format,

and global expansion to more than 1,300 stores and clubs in nine countries, employing more than 300,000 associates. Canada has played a key role in this expansion, with the founding of Wal-Mart Canada in March of 1994. Today, Wal-Mart Canada has more than 230 stores and five Sam's Clubs, employing more than 60,000 Canadians from coast to coast.

Wal-Mart has become a true textbook example of how a retailer can maintain growth without losing sight of its original core values of low overhead, the use of innovative distribution systems, and customer orientation—whereby employees swear to serve the customer. "So help me, Sam."¹

The road hasn't been entirely smooth, though. Opposition to Wal-Mart's business practices has been growing, and the company has been criticized for its employment practices related to illegal immigrants. Residents of many communities have attempted to block Wal-Mart from opening new stores, and Wal-Mart has closed a store in Quebec that was threatening to unionize. Competing on price, and therefore on costs, has its own price. Time will tell how much consumers are willing to pay for everyday low prices.

Chapter Objectives

1. To define retailing, consider it from various perspectives, demonstrate its impact, and note its special characteristics
2. To introduce the concept of strategic planning and apply it

3. To show why the retailing concept is the foundation of a successful business, with an emphasis on the total retail experience, customer service, and relationship retailing
4. To indicate the focus and format of the text

Overview

Retailing encompasses the business activities involved in selling goods and services to consumers for their personal, family, or household use. While retailing can be defined as including every sale to the final consumer (ranging from cars to apparel to meals at restaurants), we normally focus on those businesses that sell “merchandise generally without transformation, while rendering services incidental to the sale of merchandise.”²

Retailing today is at an interesting crossroads. On the one hand, retail sales are at their highest point in history. Wal-Mart is now the leading company in the world in terms of sales—ahead of ExxonMobil, General Motors, and other manufacturing giants. New technologies are improving retail productivity. There are lots of opportunities to start a new retail business—or work for an existing one—and to become a franchisee. Global retailing possibilities abound. On the other hand, retailers face numerous challenges. Many consumers are bored with shopping or do not have much time for it. Some locales have too many stores, and retailers often spur one another into frequent price cutting (and low profit margins). Customer service expectations are high at a time when more retailers offer self-service and automated systems. At the same time, many retailers remain unsure about what to do with the Web; they are still grappling with the emphasis to place on image enhancement, customer information and feedback, and sales transactions.

These are the issues that retailers must resolve: “How can we best serve our customers while earning a fair profit?” “How can we stand out in a highly competitive environment where consumers have so many choices?” “How can we grow our business while retaining a core of loyal customers?” Our point of view: Retail decision makers can best address these questions by fully understanding and applying the basic principles of retailing in a well-structured, systematic, and focused retail strategy. That is the philosophy behind *Retail Management: A Strategic Approach*.

Can retailers flourish in today’s tough marketplace? You bet! Just look at your favourite restaurant, gift shop, and food store. Look at the growth of Shoppers Drug Mart/Pharma Prix, Loblaws, or such iconic examples as Canadian Tire or Tim Hortons. Is it easy? No. Look at the experience in early 2005 of Krispy Kreme, which was at that time closing stores in Ontario and facing lawsuits from its shareholders over allegations of overstating revenues.

To prosper in the long term, all retailers need a strategic plan and a willingness to adapt, both of which are central thrusts of this book. See Figure 1-1.

In Chapter 1, we will look at the framework of retailing, the importance of developing and applying a sound retail strategy, and the focus and format of the text.

Visit Krispy Kreme (www.krispykreme.com) and see what drives what was one of the world’s “hot” retailers.



FIGURE 1-1 Boom Times for Costco

By consistently fulfilling its simple mission statement—“to continually provide our members with quality goods and services at the lowest possible prices”—Costco has grown into a retailing dynamo. It now operates hundreds of membership stores in Canada, the United States, Great Britain, Taiwan, Korea, Japan, and Mexico. Photo reprinted by permission of Retail Forward, Inc.

THE FRAMEWORK OF RETAILING

To better appreciate the role of retailing and the range of retailing activities, let us view it from three different perspectives:

- Suppose we manage a manufacturing firm that makes vacuum cleaners. How should we sell these items? We could distribute via big chains (such as Future Shop) or small neighbourhood appliance stores, have our own salesforce visit people in their homes (as Aerus—formerly Electrolux—does), or set up our own stores (if we have the ability and resources to do so). We could sponsor TV infomercials or magazine ads, complete with a toll-free phone number.

- Suppose we have an idea for a new way to teach first graders how to use computer software for spelling and vocabulary. How should we implement this idea? We could lease a store in a strip shopping centre and run ads in a local paper, rent space in a Y and rely on teacher referrals, or do mailings to parents and visit children in their homes. In each case, the service is offered “live.” But there is another option: We could use an animated Web site to teach children online.
- Suppose that we, as consumers, want to buy apparel. What choices do we have? We could go to a department store or an apparel store. We could shop with a full-service retailer or a discounter. We could go to a shopping centre or order from a catalogue. We could look to retailers that carry a wide range of clothing (from outerwear to jeans to suits) or look to firms that specialize in one clothing category (such as leather coats). We could zip around the Web and visit retailers around the globe.

Retailing does not have to involve a store. Mail and phone orders, direct selling to consumers in their homes and offices, Web transactions, and vending machine sales all fall within the scope of retailing. Retailing does not even have to include a “retailer.” Manufacturers, importers, nonprofit firms, and wholesalers act as retailers when they sell to final consumers.

Let us now examine various reasons for studying retailing and its special characteristics.

Reasons for Studying Retailing

Retailing is an important field to study because of its impact on the economy, its functions in distribution, and its relationship with firms selling goods and services to retailers for their resale or use. These factors are discussed next. A fourth factor for students of retailing is the broad range of career opportunities, as highlighted with a “Careers in Retailing” box in each chapter and a section on our Web site (www.pearsoned.ca/bermanevans). See Figure 1-2.

According to Statistics Canada, 2003 annual Canadian retail store sales (excluding motor vehicles and parts) were almost \$250 billion, making Canada the tenth-largest retail market in the world.³ This is despite Canada’s having only the 34th-largest population. Retail Forward, a global management consulting and market research firm specializing in retailing and consumer products marketing, describes the opportunity in Canada as being among the best in the world. Canada’s market is characterized by real growth and low risk (see Figure 1-3).

On a global basis, the world’s ten largest retailers generated sales of U.S.\$741.9 billion in 2003. Of these ten companies, six are based in the United States, a finding that would not surprise Canadians, who are very familiar with U.S. firms. See Figure 1-4.

Fig 1-2 new to come

FIGURE 1-2 2 lines Figure title to come

Figure Caption to come.

Source: Retail Council of Canada

CAREERS IN RETAILING

Many Career Opportunities Are Available in Retailing

Although the typical entry-level positions in retailing for a postsecondary graduate include retail management trainee, department/sales manager, and assistant buyer, it is generally difficult to classify retail career opportunities—because there are so many of them. Most large retail organizations can be described as “small cities.” As such, these retailers offer career paths in almost every aspect of business, such as buying, store operations, accounting, financial management, human resources, advertising, public relations, marketing research, and so on.

The ideal candidate pursuing a retail career should possess the following qualities:

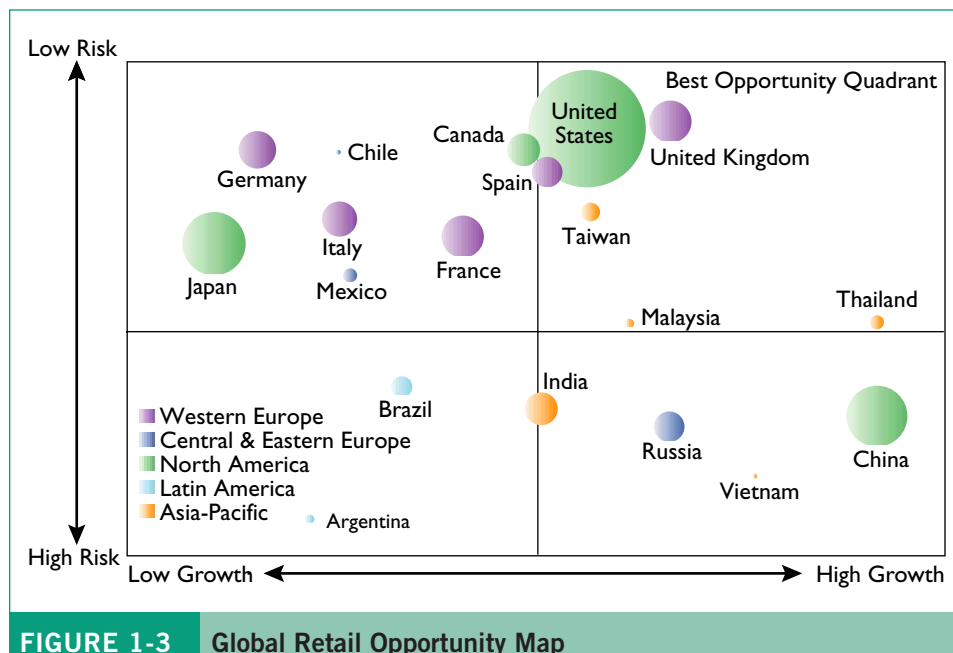
- Be a “people person” to understand customer needs and be an effective team member.
- Be flexible to be able to perform a variety of tasks throughout the workday.
- Be decisive to make quick decisions that are well thought out.
- Have analytical skills to analyze data and predict trends.
- Have stamina to be able to work under pressure for long time periods.

What makes retailing so fascinating is the constant change that a retail executive must understand and manage. Among the areas of retailing that are now undergoing rapid change are the increased importance on nonstore retailing, the focus on customer satisfaction, and the application of technology to all areas of retailing. These changes represent both opportunities and challenges.

Source: “Careers in Retailing,” www.nrf.com, January 27, 2003.

Nationally, the top ten retailers in Canada in 2003 are listed in Figure 1-5. Wal-Mart, in just ten years, has become Canada’s third-largest retailer. As discussed in subsequent chapters, Wal-Mart has yet to introduce its supercentres to Canada (these include a full grocery store

Learn more about the exciting array of retailing career opportunities (www.retailcouncil.ca). Curious about recent trends in retail? Visit www.trendwatching.com and www.springwise.com to learn about the latest developments.



2002 Rank	2003 Rank	Company	Home Contry	Net Sales (Million USD)	Share of Top 100	Share of Top 200
1	1	Wal-Mart Stores Inc.	United States	\$256,329	11.9%	10.1%
2	2	Carrefour Group	France	\$79,761	3.7%	3.1%
3	3	The Home Deopt Inc.	United States	\$64,816	3.0%	2.5%
5	4	Metro AG	Germany	\$60,648	2.8%	2.4%
4	5	The Kroger Co.	United States	\$53,791	2.5%	2.1%
8	6	Tesco PLC.	United Kingdom	\$50,370	2.3%	2.0%
7	7	Target Corp.	United States	\$46,781	2.2%	1.8%
6	8	RoyalAjp;d	Netherlands	\$44,283	2.1%	1.7%
10	9	TIM Entreprise SA	France	\$43,453	2.0%	1.7%
9	10	Costco Companies Inc.	United States	\$41,693	1.9%	1.6%

FIGURE 1-4 Economic Concentration of the Leading Companies, 2003

Source: Company annual reports, published reports, and Retail Forward Inc.

Ranked by Total Sales in Canada			Canada Sales and Stores		
Company	Head-quarters	Primary Retail Primary	Net Sales (\$US Mil)	% Chg Sales	Total Stores
1 Loblaw Companies Limited	Canada	FDM	13,441	9.7%	1,641
2 Empire Company Limited	Canada	FDM	7,913	6.1%	1,311
3 Wal-Mart ¹	United States	FDM	7,400	13.7%	235
4 Hudson's Bay Company	Canada	Apparel, Home, FDM	5,301	0.2%	562
5 Costco	United States	FDM	5,237	10.2%	63
6 Canadian Tire Corp. Ltd.	Canada	Home	4,343	9.3%	996
7 Shoppers Drug Mart Corp.	Canada	FDM	4,338	11.4%	918
8 Sears Canada	United States	Apparel	4,168	-5.8%	429
9 Safeway	United States	FDM	4,043	16.3%	216
10 Home Depot ¹	United States	Home	3,243	16.1%	102
Total Top 10 Sales			\$59,426		
Share of Non-Auto Sales			34%		

FIGURE 1-5 Top Ten Retailers in Canada, 2003

¹Sales in Canada estimated by Retail Forward.

Source: Company annual reports, published reports, and Retail Forward Inc.

assortment added to Wal-Mart's traditional lines). When Wal-Mart does add those super centres, both Loblaws (currently number one) and Empire—owner of Sobeys—will be hard pressed to hold their current sales levels.

Turning now to domestic retailers in Canada, we see in Figure 1-6 many familiar companies led again by Loblaws—one of Canada's most innovative and successful firms.

From a cost perspective, retailing is a significant field of study. There is a saying that "The secret of retail is in the detail." Imagine owning a company where 87 cents of every dollar in sales goes to pay suppliers and personnel, and to cover the rent, heat, lights, and other costs. After paying interest to the bank, taxes to the government, and various other expenses, you have less than six cents left over. Talk about thin margins. But that's what (very successful) Shoppers Drug Mart experienced in 2003.⁴ And Shoppers was lucky. Hbc (owner of The

Ranked by Total Global Sales		Total Sales and Stores			Global Rank and Penetration			Domestic Market	
Company	Primary Retail Sector	Net Sales (\$US Mil)	% Chg Sales	Total Stores	2003 Rank, Top 200 Retailers Worldwide	Single-Country, Regional or Global	Number of Countries	Share of Total Sales	Share of Total Stores
1 Loblaw Companies Limited	FDM	13,441	9.7%	1,641	46	Single Country	1	100%	100%
2 Empire Company Limited	FDM	7,913	6.1%	1,311	88	Single Country	1	100%	100%
3 Hudson's Bay Company	Apparel, Home, FDM	5,301	0.2%	562	117	Single Country	1	100%	100%
4 Canadian Tire Corp. Ltd.	Home	4,343	9.3%	996	139	Single Country	1	100%	100%
5 Shoppers Drug Mart Corp.	FDM	4,338	11.4%	916	140	Single Country	1	100%	100%
6 Alimentation Couche-Tard Alimentation Couche-Tard, Canada	FDM	4,206 1,547	77.1%	8,884	142	Global	9	37%	22%
7 Jean Coutu Group Inc. Jean Coutu Group Inc., Canada	FDM	2,776 1,130	0.9% 22.7%	655 322	198	Regional	2	41%	49%
8 Home Hardware Stores Ltd.	Home	2,722	22.7%	1,000	200	Single Country	1	100%	100%
9 RONA Inc.	Home	2,245	34.4%	528	—	Single Country	1	100%	100%
10 Metro Inc.	FDM	1,994	8.2%	800	—	Single Country	1	100%	100%
11 London Drugs Ltd.	FDM	1,239	7.5%	59	—	Single Country	1	100%	100%
12 Sodisco-Howden Group Inc.	Home	1,218	0.7%	800	—	Single Country	1	100%	100%
13 Forzani Group Ltd., The	Home	793	5.1%	383	—	Single Country	1	100%	100%
14 7-Eleven Canada Inc.	FDM	635	−21.4%	491	—	Single Country	1	100%	100%
15 Brick Group, The	Apparel	634	4.2%	81	—	Single Country	1	100%	100%
16 Pharmassve Drugs Ltd.	Home	616	7.6%	330	—	Single Country	1	100%	100%
17 Reitmans	Apparel	610	13.2%	845	—	Single Country	1	100%	100%
18 Indigo Books & Music Inc.	Home	577	3.4%	255	—	Single Country	1	100%	100%
19 North West Company North West Company, Canada	FDM	561 441	4.4% 8.8%	181 156	—	Regional	2	75%	86%
20 Leon's Furniture Ltd.	Home	327	8.2%	55	—	Single Country	1	100%	100%
21 La Senza Corp. La Senza Corp., Canada	Apparel	241 219	8.2% 12.3%	491 296	—	Global	18	91%	60%

Figure 1-6 Leading Domestic Retailers in Canada, 2003

Sources: Company annual reports, published reports, and Retail Forward Inc.

Bay, Zellers, and Home Outfitters) took home only one-half of one cent in after-tax profits in 2003 (\$69 million on sales of \$7.4 billion).⁵

Retail Functions in Distribution Retailing is the last stage in a **channel of distribution**—all of the businesses and people involved in the physical movement and transfer of ownership of goods and services from producer to consumer. Retailers often act as the contact between manufacturers, wholesalers, and the consumer. Many manufacturers would like to make one basic type of item and sell their entire inventory to as few buyers as possible, but consumers usually want to choose from a variety of goods and services and purchase a limited quantity. Retailers collect an assortment from various sources, buy in large quantity, and sell in small amounts. This is the **sorting process**.

Another job for retailers is communicating both with customers and with manufacturers and wholesalers. Shoppers learn about the availability and characteristics of goods and services, store hours, sales, and so on, from retailer ads, salespeople, and displays. Manufacturers and wholesalers are informed by their retailers about sales forecasts, delivery delays, customer

Roots (www.roots.com) is not only a designer but is also a retailer.

complaints, defective items, inventory turnover, and more. Many goods and services have been modified because of retailer feedback.

For small suppliers, retailers can provide assistance by transporting, storing, marking, advertising, and pre-paying for products. Small retailers may need the same type of help from their suppliers. The functions performed by retailers affect the percentage of each sales dollar they need to cover costs and profits.

Retailers also complete transactions with customers. This means having convenient locations, filling orders promptly and accurately, and processing credit purchases. Some retailers also provide customer services, such as gift wrapping, delivery, and installation. To make themselves even more appealing, many firms now engage in **multi-channel retailing**, whereby a retailer sells to consumers through multiple retail formats (points of contact). Most large retailers operate both physical stores and Web sites to make shopping easier and to accommodate consumer desires. Firms such as Sears Canada sell to customers through retail stores, mail-order catalogues, a Web site, and a toll-free phone number.

For these reasons, products are usually sold through retailers not owned by manufacturers (wholesalers). This lets manufacturers reach more customers, reduce costs, improve cash flow, increase sales more rapidly, and focus on their area of expertise. Select manufacturers, such as Sony and Polo Ralph Lauren, do operate retail facilities (besides selling at traditional retailers). In running their stores, these firms complete the full range of retailing functions and compete with conventional retailers.

The Relationships Among Retailers and Their Suppliers Relationships among retailers and suppliers can be complex. Because retailers are part of a distribution channel, manufacturers and wholesalers must be concerned about the calibre of displays, customer service, store hours, and retailers' reliability as business partners. Retailers are also major customers of goods and services for resale, store fixtures, computers, management consulting, and insurance.

Retailers and suppliers have different priorities in such areas as control over the distribution channel, profit allocation, the number of competing retailers handling suppliers' products, product displays, promotion support, payment terms, and operating flexibility. Because of the growth of retail chains, retailers have more power than ever. Unless suppliers know retailers' needs, they cannot have good rapport with them; and as long as retailers have a choice of suppliers, they will pick those that offer them more.

Channel relations tend to be smoothest with **exclusive distribution**, whereby suppliers make agreements with one or a few retailers to be the only ones in specified geographic areas to carry certain brands or products. This stimulates both parties to work together to maintain an image, assign shelf space, allot profits and costs, and advertise. It also usually requires that retailers limit their brand selection in the specified product lines; they might have to decline to handle other suppliers' brands. From the manufacturers' perspective, exclusive distribution may limit their long-run total sales.

Channel relations tend to be most volatile with **intensive distribution**, whereby suppliers sell through as many retailers as possible. This often maximizes suppliers' sales and lets retailers offer many brands and product versions. Competition among retailers selling the same items is high; retailers may use tactics not beneficial to individual suppliers, as they are more concerned about their own results. Retailers may assign little shelf space to specific brands, set very high prices on them, and not advertise them.

With **selective distribution**, suppliers sell through a moderate number of retailers. This combines aspects of exclusive and intensive distribution. Suppliers have higher sales than in exclusive distribution, and retailers carry some competing brands. It encourages suppliers to provide some marketing support and retailers to give adequate shelf space. See Figure 1-7.

The Special Characteristics of Retailing

Three factors that distinguish retailing from other types of business are noted in Figure 1-8 and discussed here. Each factor imposes unique requirements on retail firms.

The average amount of a sales transaction for retailers is much less than for manufacturers. The average sales transaction per shopping trip is well under \$100 for department stores,

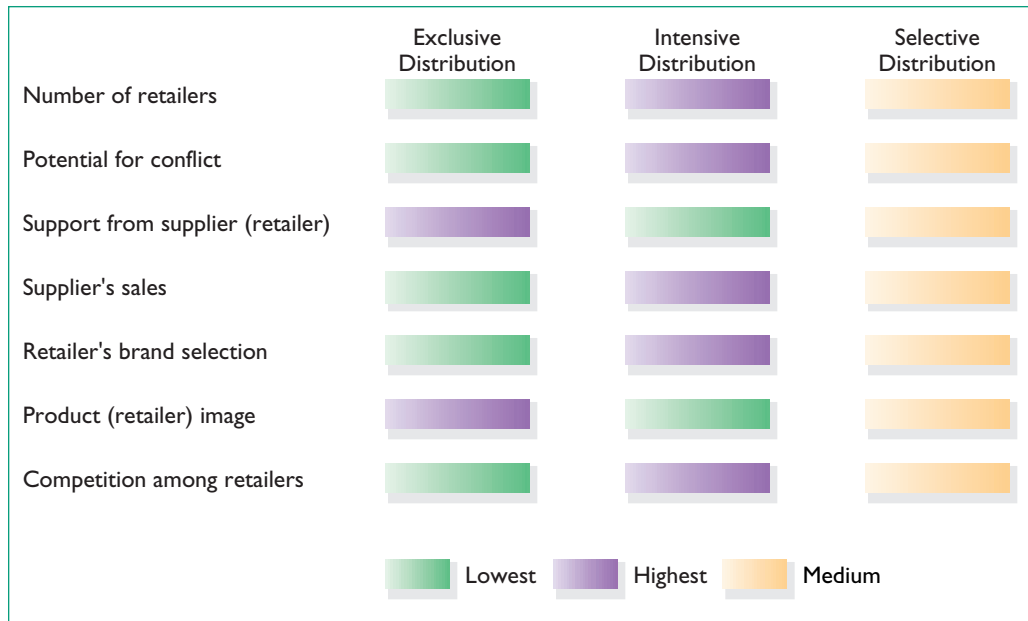


Figure 1-7 Comparing Exclusive, Intensive, and Selective Distribution

specialty stores, and supermarkets. This low amount creates a need to tightly control the costs associated with each transaction (such as credit verification, sales personnel, and bagging); to maximize the number of customers drawn to the retailer, more emphasis may be placed on ads and special promotions; and impulse sales may be increased by more aggressive selling. However, cost control can be tough. For instance, inventory management is often expensive due to the many small transactions with a large number of customers. A typical supermarket has several thousand customer transactions *per week*, which makes it harder to find the proper in-stock level and product selection. Thus, retailers are expanding their use of computerized inventory systems.

Final consumers make many unplanned or impulse purchases. Surveys show that a large percentage of consumers do not look at ads before shopping, do not prepare shopping lists (or they deviate from the lists once in stores), and make fully unplanned purchases. This behaviour shows the value of in-store displays, attractive store layouts, and well-organized stores, catalogues, and Web sites. Candy, cosmetics, snack foods, magazines, and other items are sold as impulse goods when placed in visible, high-traffic areas in a store, catalogue, or Web site. Because so many purchases are unplanned, the retailer's ability to forecast, budget, order merchandise, and have sufficient personnel on the selling floor is compromised.

Retail customers usually visit a store, even though mail, phone, and Web sales have increased. Despite the inroads made by nonstore retailers, most retail transactions are still conducted in stores—and will continue to be in the future. Many people like to shop in person; want to touch, smell, and/or try on products; like to browse for unplanned purchases; feel more comfortable taking a purchase home with them than waiting for a delivery; and desire privacy while at home. This store-based shopping orientation has implications for retailers; they must work to attract shoppers to their stores and consider such factors as store location, transportation, store hours, proximity of competitors, product selection, parking, and ads.

Canadian Tire (www.canadiantire.ca) has a Web site to accompany its traditional stores and catalogues.

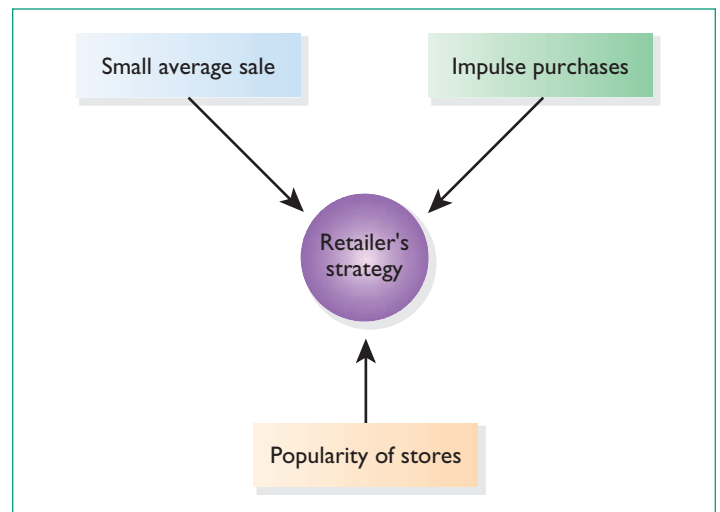


Figure 1-8 Special Characteristics Affecting Retailers

THE IMPORTANCE OF DEVELOPING AND APPLYING A RETAIL STRATEGY

A **retail strategy** is the overall plan guiding a retail firm. It influences the firm's business activities and its response to market forces, such as competition and the economy. Any retailer, regardless of size or type, should utilize these six steps in strategic planning:

1. Define the type of business in terms of the goods or service category and the company's specific orientation (such as full service or "no frills").
2. Set long-run and short-run objectives for sales and profit, market share, image, and so on.
3. Determine the customer market to target on the basis of its characteristics (such as gender and income level) and needs (such as product and brand preferences).
4. Devise an overall, long-run plan that gives general direction to the firm and its employees.
5. Implement an integrated strategy that combines such factors as store location, product assortment, pricing, and advertising and displays to achieve objectives.
6. Evaluate performance regularly and correct weaknesses or problems when observed.

To illustrate these points, the background and strategy of Loblaws—one of the world's foremost retailers—are presented. Then the retailing concept is explained and applied.

Loblaws, Canada's largest and most successful food distributor, operates such familiar banners as Atlantic Super Stores, the Real Canadian Superstore, Zehrs, Fortinos, and No Frills (see Figure 1-9).

A brief history of Loblaws appears on its Web sites (www.loblaws.ca and www.loblaw.com). The company was started in Toronto by T.P. Loblaw and Justin Cork in 1919. As noted later in Chapter 3, the store was the first to offer a self-serve policy. Prior to George Weston Ltd.'s acquiring a controlling share in 1947, Loblaws had already become Canada's largest grocery retailer.

Today, Loblaws has more than 1000 corporate and franchised stores (and another 600 associated stores and more than 6000 wholesale accounts) in all provinces and territories and more than 126,000 full- and part-time employees. It also operates popular Web sites for many of its brands.

Loblaws' Strategy: Key to Success

Throughout its history, Loblaws has followed a customer-centred strategy but over the past few decades that the momentum has really built.⁶

Growth-oriented objectives. "The company continues to use the cash flow generated in the business to grow. From 2000 to 2003, Loblaws invested more than \$3.5 billion in stores and infrastructure resulting in a net increase of 6.4 million retail square feet, an average annual increase of 6 percent." For 2004, the company planned \$1.4 billion in capital expenditures and to open, expand, or renovate 160 stores.

Appeal to prime markets. The firm is strong with female head of household shoppers from homes that have high incomes and higher education than many of its competitors' shoppers.

Multi-format. Given the diversity of its customer base, Loblaws operates a wide range of

Fig 1-9 new to come
(pic of Lobaw)

Figure 1-9 "Eat Well—Spend Less" at Atlantic Super Stores

This well-admired chain, a division of Loblaws, has a very compelling retail value proposition.

formats—discount, community, fresh, and superstores—to customize its offering to the needs of its targets.

Distinctive image. Each banner is well positioned. The slogan for the very successful Atlantic operation is “Eat Well—Spend Less.” This value proposition is based on getting more than you pay for and is reinforced in every touch point of the customer’s experience.

Focus. Loblaw’s strives to provide convenient one-stop shopping for its customers’ everyday needs with a focus on food retailing. The food drives the traffic.

Strong customer service and overall execution. Loblaw’s is completely dedicated to flawless execution of its value proposition.

Employee relations. Loblaw’s has a history of productive relations with its staff. In 2003, it developed a unique arrangement with the United Food and Commercial Workers International Union that paved the way to bringing the Real Canadian Superstore format from Western Canada into Ontario. In 2003, the company had 376 collective agreements.

Innovation. Loblaw’s leads North American retailers in developing a continuous stream of innovative products and services. At the top of the list is its industry-leading controlled label programs: President’s Choice; No-Name brands; PC Financial; PC Home; EXACT health and beauty care products; PC Insider’s Report; gas stations; pharmacies; and floral and wine stores. In 2003, more than 1500 new PC products were introduced. Total controlled label sales in 2003 were a staggering \$5.6 billion—about 20 percent of total store sales.

Commitment to technology. Loblaw’s is committed to using technology to support its planned growth. Especially important is technology within its distribution channel. At the consumer level, Loblaw’s has developed a loyalty program that exploits its banking operations. The President’s Choice MasterCard allows Loblaw’s to learn what products its customers are buying in their own stores and what these customers are buying elsewhere too.

Community involvement. Each local store supports numerous charities. Like many retailers, Loblaw’s strives to be a good neighbour. Nationally, Loblaw’s is a cornerstone of the W. Garfield Weston Foundation—a private organization directing its funds primarily to education and the environment.

Constant performance monitoring. “The company continuously reviews and monitors its activities and performance indicators.” Key metrics include sales growth, EPS (earnings per share), debt to equity, ROI (return on investment), market share, development of new controlled label products, and operating and administrative cost management.

ETHICS IN RETAILING

Lands’ End: A High Standard of Business Conduct

Lands’ End (www.landsend.com) is so serious about its business conduct that it will stop all future orders with a partner if the partner does not correct a practice Land’s End deems unacceptable. Of particular concern are its partners’ labour practices.

Lands’ End does not tolerate partners that employ child workers under 16 years of age, pay less than minimum wages, practise discrimination, or have unsafe working conditions. To enforce its standards, Lands’ End requires that business partners provide it with full access to both their facilities and their employment records. Lands’ End then makes unannounced visits.

Lands’ End’s ethical standards also extend to customers. The firm proudly promotes its “principles of doing business” as one of its core values. Among its principles are the following:

- “We price our products fairly and honestly. We do not, have not, and will not participate in the common retailing practice of inflating markups to set up a phony ‘sale.’”
- “We believe that what is best for our customer is best for all of us. Everyone here understands that concept. Our sales and service staff are urged to take all the time necessary to take care of you. We even pay for your call, for whatever reason you call.”

Sources: “Lands’ End’s Standards of Business Conduct,” www.landsend.com, September 27, 2002; and “Lands’ End Principles of Doing Business,” www.landsend.com, September 27, 2002.

The Retailing Concept

As we just described, Loblaw's has a sincere long-term desire to please customers. To do so, it uses a customer-centred, chainwide approach to strategy development and implementation; it is value-driven and it has clear goals. Together, these four principles form the **retailing concept** (depicted in Figure 1-10), which should be understood and applied by all retailers:

1. *Customer orientation.* The retailer determines the attributes and needs of its customers and endeavours to satisfy these needs to the fullest.
2. *Coordinated effort.* The retailer integrates all plans and activities to maximize efficiency.
3. *Value-driven.* The retailer offers good value to customers, whether it be upscale or discount. This means having prices appropriate for the level of products and customer service.
4. *Goal orientation.* The retailer sets goals and then uses its strategy to attain them.

Unfortunately, this concept is not grasped by every retailer. Some are indifferent to customer needs, plan haphazardly, have prices that do not reflect the value offered, and have unclear goals. Some are not receptive to change, or they blindly follow strategies enacted by competitors. Some do not get feedback from customers; they rely on supplier reports or their own past sales trends.

The retailing concept is fairly easy to adopt. It means communicating with shoppers and viewing their desires as critical to the firm's success, having a consistent strategy (such as offering designer brands, plentiful sales personnel, attractive displays, and above-average prices in an upscale store), offering prices perceived as "fair" (a good value for the money) by customers, and working to achieve meaningful, specific, and reachable goals. However, the retailing concept is only a strategic guide. It does not deal with a firm's internal capabilities or competitive advantages but offers a broad planning framework.

Let's look at three issues that relate to a retailer's performance in terms of the retailing concept: the total retail experience, customer service, and relationship retailing.

The Total Retail Experience While one consumer may shop at a discount retailer, another at a neighbourhood store, and a third at a full-service firm, these diverse customers all have something crucial in common: each encounters a total retail experience (including everything from parking to the checkout counter) in making a purchase. According to WSL Strategic Retail, "When asked about the characteristics of 'their most favorite' outlet, shoppers rated appearance and cleanliness highest, followed by convenience, 'a good place to spend time browsing,' and 'attracts customers I feel comfortable with.'"⁷

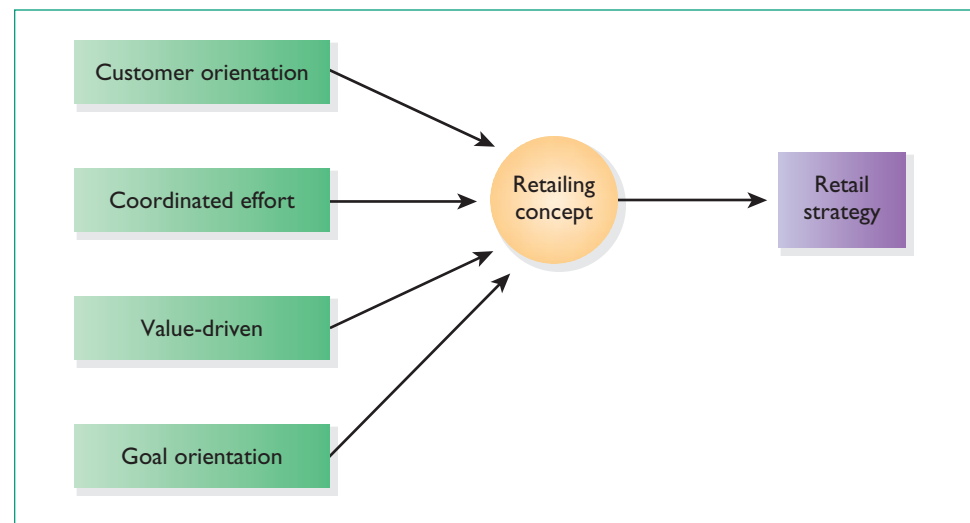


Figure 1-10 Applying the Retailing Concept

The **total retail experience** includes all the elements in a retail offering that encourage or inhibit consumers during their contact with a retailer. Many elements (such as the number of salespeople, displays, prices, brands carried, and inventory on hand) are controllable by a retailer; others (such as the adequacy of on-street parking, the speed of a consumer's modem, and sales taxes) are not. If some part of the total retail experience is unsatisfactory, consumers may not make a purchase—they may even decide not to patronize a retailer again: “Everyone has stories to tell about disrespectful retailing. You're in an electronics store, looking for assistance to buy a DVD player or a laptop computer. You spot a couple of employees by their uniforms and badges, but they're deep in conversation. They glance in your direction but continue to ignore you. After a while, you walk out, never to return.”⁸

In planning its strategy, a retailer must be sure that all strategic elements are in place. *For the shopper segment to which it appeals*, the total retail experience must be aimed at fulfilling that segment's expectations. A discounter should have ample stock on hand when it runs sales but not plush carpeting, and a full-service store should have superior personnel but not have them perceived as haughty by customers. Some retailers have not learned this lesson, which is why some theme restaurants are in trouble. Their novelty has worn off, and many people believe that the food is only fair while the prices are high.

A big challenge for today's retailers is generating customer “excitement” because many people are bored with shopping or have little time for it. Here is what one retailer, highlighted in Figure 1-11, is doing:

Build-A-Bear Workshop utilizes its physical space as a forum to interact with the customer. Heavily experience-oriented, customers come into the store and are involved in every step of the process of creating their own bear, from designing to dressing. The appeal of this type of environment is that customers can experience the product—they can see, touch, and interact with their creation, thereby interacting with the brand. In this way, Build-A-Bear uses its stores to personalize the experience and forge an emotional bond with its customers.⁹

With six stores in Canada and 170 worldwide, Build-A-Bear hopes its appeal will continue to grow.

Holt Renfrew works very hard at creating in-store excitement. “Boys' Night Out,” “Girls' Night In,” the millennium event, and the “Viva Halia” event designed to showcase a 26-day promotion are all examples of adding experience to the store.

Build-A-Bear Workshop (www.buildabear.ca) even offers a great online shopping experience.



Figure 1-11 Eliminating Shopper Boredom

Shopper interactivity and involvement at Build-A-Bear Workshop make this chain a fun place to shop.

Photo reprinted by permission of Retail Forward, Inc.

TECHNOLOGY IN RETAILING

Retailers' Technology Spending and Customer Service Up

All Canadians have one thing in common—we are all consumers. Furthermore, we know the impact on our total retail experience when customer service exceeds our expectations. The Canadian retail scene is constantly changing due to ongoing mergers, new store entry from abroad, multi-channel selling, and e-commerce. Intense competition among these retailers has increased awareness of the new and emerging retail technologies. PricewaterhouseCoopers, the world's largest professional services organization, and *RetailTech*, a Canadian magazine for retail businesses, reported that in 2001 the retail industry increased its information technology budget by 45 percent over the previous year. In a time where the “good old days” are behind us and technology replaces a great deal of human interaction, we can be optimistic that technology is actually helping to create positive customer service experiences.

Using efficient and original technologies, retailers can now use more dependable in-store customer data to create better-designed performance measures, customer research, and analytics. In effect, the best technology solutions help the retailer focus completely on the customers. For example, with new technology, retailers are better able to track and measure purchasing habits—making it easier for them to target promotions. Wouldn't it be nice to receive promotional material only for products that you actually use? Also, there is nothing more annoying than seeing an item on sale in one retail location and full-price in the same store down the street. By linking franchise locations with head office, retailers make sure prices and promotions are carried out consistently throughout all of their stores.

Emerging technologies mean that Canadian retailers need to think about how to utilize their customer information to produce enhanced customer service. This implies that now, more than ever, the customer will always be right.

Sources: David Chalk, “With Technology the Customer Is Always Right,” *Canada.com/technology*, July 19, 2004; and Rita Patlan and Kenneth Tsui, “Retail Technology Increases Convenience and Choice for Canadian Customers,” *Industry Canada*, March 20, 2003.

Williams Sonoma's strategy of bundling merchandise to seasonal ideas and Body Shop's attempt to create a festive atmosphere during key seasons further illustrate the growing interest in building store excitement. In the face of the discount store's rock bottom prices and wide selection, such excitement is a key differentiator.

Customer Service Customer service refers to the identifiable, but sometimes intangible, activities undertaken by a retailer in conjunction with the basic goods and services it sells. It has a strong impact on the total retail experience. Among the factors composing a customer service strategy are store hours, parking, shopper-friendliness of the store layout, credit acceptance, salespeople, such amenities as gift wrapping, rest rooms, employee politeness, delivery policies, the time shoppers spend in checkout lines, and customer follow-up. This list is not all inclusive, and it differs in terms of the retail strategy undertaken. Customer service is discussed further in Chapter 2, “Building and Sustaining Relationships in Retailing.”

Satisfaction with customer service is affected by expectations (based on the type of retailer) and past experience, and people's assessment of customer service depends on their perceptions—not necessarily reality. Different people may evaluate the same service quite differently. The same person may even rate a firm's customer service differently over time because of its intangibility, though the service stays constant:

Costco shoppers don't expect anyone to help them to their car with bundles of commodities. Teens at Abercrombie & Fitch would be pretty turned off if a tuxedo-clad piano player serenaded them while they shopped. And Wal-Mart customers would protest loudly if the company traded its shopping carts for oversized nylon tote bags. On the other hand, helping shoppers to their cars when they have an oversized purchase is part of the service package at Canadian Tire, and nylon totes jammed full of value-priced apparel are in sync with the Old Navy image. Service varies widely from one retailer to the next, and from one shopping channel to the next. The challenge for retailers is to ask shoppers what they expect in the way of service, listen to what they say, and then make every attempt to satisfy them.¹⁰

Interestingly, despite a desire to provide excellent customer service, a number of outstanding retailers now wonder if “the customer is always right.” Are there limits? Ponder this

At Lands' End (www.landsend.ca), customer service means satisfaction is guaranteed. Period.

scenario: Companies such as Home Depot and Old Navy are among those that have tightened their return policies. Furthermore, “Gap, which used to exchange pretty much anything at any time, now requires clothes kept longer than two weeks to come back unworn, unwashed, and with the tags on.” Some leading retailers are using software programs to identify “habitual returners.” Why the policy change? “With growth slowing in the retail business, companies are scrambling to plug the leaks. About 6 percent of all retail purchases are returned every year.”¹¹ It remains to be seen whether such policies will lead to any backlash. Lands’ End, for one, continues to believe that putting any obstacle in the way of a seamless return would seriously hurt its business.

Relationship Retailing Today’s best retailers realize it is in their interest to engage in **relationship retailing**, whereby they seek to establish and maintain long-term bonds with customers, rather than act as if each sales transaction is a completely new encounter. This means concentrating on the total retail experience, monitoring satisfaction with customer service, and staying in touch with customers. Figure 1-12 shows a customer respect checklist that retailers could use to assess their relationship efforts.

To be effective in relationship retailing, a firm should keep two points in mind: (1) Because it is harder to lure new customers than to make existing ones happy, a “win–win” approach is critical. For a retailer to “win” in the long run (attract shoppers, make sales, earn profits), the customer must also “win” in the long run (receive good value, be treated with respect, feel welcomed by the firm). Otherwise, that retailer loses (shoppers patronize competitors) and customers lose (by spending time and money to learn about other retailers). (2) Because of the advances in computer technology, it is now much easier to develop a customer database with information on people’s attributes and past shopping behaviour. Ongoing customer contact can be better, more frequent, and more focused. This topic is covered further in Chapter 2, “Building and Sustaining Relationships in Retailing.”

As with the retailers profiled in this book, we want to engage in relationship retailing. So please visit our Web site (www.pearsoned.ca/bermanevans). 😊

- ✓ Do we trust our customers?
- ✓ Do we stand behind what we sell? Are we easy to deal with if a customer has a problem? Are frontline workers empowered to respond properly to a problem? Do we guarantee what we sell?
- ✓ Is keeping commitments to customers—from being in stock on advertised goods to being on time for appointments—important in our company?
- ✓ Do we value customer time? Are our facilities and service systems convenient and efficient for customers to use? Do we teach employees that serving customers supersedes all other priorities, such as paperwork or stocking shelves?
- ✓ Do we communicate with customers respectfully? Are signs informative and helpful? Is advertising above reproach in truthfulness and taste? Are contact personnel professional? Do we answer and return calls promptly—with a smile in our voice? Is our voice mail caller-friendly?
- ✓ Do we treat all customers with respect, regardless of their appearance, age, race, gender, status, or size of purchase or account? Have we taken any special precautions to minimize discriminatory treatment of certain customers?
- ✓ Do we thank customers for their business? Do we say “thank you” at times other than after a purchase?
- ✓ Do we respect employees? Do employees, who are expected to respect customers, get respectful treatment themselves?

Figure 1-12 A Customer Respect Checklist

Source: Adapted by the authors from Leonard L. Berry, “Retailers with a Future,” *Marketing Management*, Spring 1996, p. 43. Reprinted by permission of the American Marketing Association.

RETAILING AROUND THE WORLD

ASDA Profits From the Wal-Mart Business Model

Even though ASDA's combination food and clothing stores (www.asda.com) in Great Britain were successful before Wal-Mart (www.walmart.com) acquired the chain in 1999, ASDA's sales and profits rose as it began to incorporate Wal-Mart's merchandising strategies. For example, during one 12-week period, same-store sales for apparel and general merchandise increased by 30 percent. According to an ASDA spokesperson, "The process we are going through is making our space work harder."

In following the Wal-Mart business model, ASDA created a specialty division to oversee its pharmacy, optical, jewellery, photography, and shoe departments. ASDA began 2001 with no jewellery departments, 6 vision centres, and 36 pharmacies and ended the year with 12 jewellery departments, 50 vision centres, and 84 pharmacies. It now has more than 150 jewellery departments, 150 vision centres, and 130 pharmacies.

ASDA's sales also improved with the introduction of 5000 new nonfood items aimed at home and leisure use. The chain introduced various specialty departments so that consumers now view ASDA as a one-stop shopping destination. Much of the space for the larger assortment of general merchandise and the new specialty departments has been generated by offering smaller package sizes and fewer shelf facings for each item.

Source: "ASDA Reaps Rewards for International Division," *DSN Retailing Today*, February 25, 2002, pp. 1, 28.

As we continue our overview of retailing in Canada, let's now turn to some predictions for the rest of this decade—a decade that many of you will face in a retail environment.

Twenty Trends for 2010¹²

1. *No more one size fits all.* Individual retailers will adopt a more robust portfolio approach to the market to appeal to the multidimensional consumer mindset.
2. *Wal-Mart keeps smiling.* While the world waits for Wal-Mart to collapse under its own weight, Wal-Mart will wait for no one.
3. *Supercentres keep rolling.* Wal-Mart's push into the grocery business is changing the way we shop—and the supercentre juggernaut will steamroll on.
4. *Surviving the supercentre.* Conventional food, drug, and mass formats are under attack, but there is still room to maneuver.
5. *Department store death spiral.* Department stores are caught in a vicious circle propelled by escalating competition from mass retailers and lifestyle specialists—more consolidation and retrenchment are inevitable.
6. *Malls get mauled.* Malls aren't going away, but many will change almost beyond recognition.
7. *Re-concept rather than remodel.* Compressed lifecycles for products, retail concepts, and brands mean the days of the large, mass-merchandised specialty chain are over.
8. *Experience excels.* Experiential retailing concepts will mix context and commerce as never before.
9. *E-commerce: More action than transaction.* E-retailing's impact will extend well beyond its contribution to retail sales, which will remain a relatively minor share of the total.
10. *Smart shopping.* Consumers will embrace new technologies that give them better information and more control over the shopping process.
11. *Smart stores.* Stores and store associates will get smarter as retailers adopt technologies to drive greater space and employee productivity. Over time, some smart store solutions will displace human resources with technology.
12. *M-commerce: More B2B (business to business) than B2C (business to consumer).* For the rest of this decade, the selling of products and services via mobile devices will remain largely elusive. In the next few years, wireless will focus primarily on B2B applications.
13. *Global land rush continues.* Despite growing world tensions, strong interests that businesses have in further liberalization of international borders will prevail—and with the global land rush will come a global retail oligopoly.

14. *Retailers act like suppliers.* As retailers grow and become more global, they will seek alternative sources of supply. By 2010, many suppliers will find their biggest competitors are their retail customers—and they own the shelves.
15. *Retailers as brand managers.* Retailers will become brand managers on an unprecedented scale as the search for competitive differentiation accelerates. This decade means build your own brand or be gone.
16. *Brand sharing.* Retailers will plug into each other's shopper base and leverage location strength through innovative store-within-a-store, or brand-sharing, partnerships.
17. *Über retailers.* Over the course of the decade, retailers will find out just how far they can stretch their brands as they continue to transcend competitive boundaries.
18. *Suppliers act like retailers.* Suppliers that survive the decade will become best-in-class category consultants as they take on an increasing number of activities that traditionally have been the responsibility of the retailer.
19. *Suppliers become retailers.* As more suppliers get locked out of traditional retail channels, supplier direct to consumer will become a more viable scenario for the future.
20. *Consumers call the shots.* In a buyer's market, where technology is changing the dynamics of the buyer–seller interface, the relationship between retailers and consumers will become much more symmetrical and, if anything, tilt in favour of the consumer. Now and forever more, consumers call the shots.

THE FOCUS AND FORMAT OF THE TEXT

There are various approaches to the study of retailing: an institutional approach, which describes the types of retailers and their development; a functional approach, which concentrates on the activities that retailers perform (such as buying, pricing, and personnel practices); and a strategic approach, which centres on defining the retail business, setting objectives, appealing to an appropriate customer market, developing an overall plan, implementing an integrated strategy, and regularly reviewing operations.

We will study retailing from each perspective but centre on a *strategic approach*. Our basic premise is that the retailer has to plan for and adapt to a complex, changing environment. Both opportunities and threats must be considered. By engaging in strategic retail management, the retailer is encouraged to study competitors, suppliers, economic factors, consumer changes, marketplace trends, legal restrictions, and other elements. A firm prospers if its competitive strengths match the opportunities in the environment, weaknesses are eliminated or minimized, and plans look to the future (as well as the past).

Retail Management: A Strategic Approach is divided into eight parts. The balance of Part 1 looks at building relationships and strategic planning in retailing. Part 2 characterizes retailing institutions on the basis of their ownership; store-based strategy mix; and Web, non-store-based, and other nontraditional retailing format. Part 3 deals with consumer behaviour and information gathering in retailing. Parts 4 to 7 discuss the specific elements of a retailing strategy: planning the store location; managing a retail business; planning, handling, and pricing merchandise; and communicating with the customer. Part 8 shows how a retailing strategy may be integrated, analyzed, and improved. The following topics have special appendices: service retailing (Chapter 2), international retailing (Chapter 3), and franchising (Chapter 4). The end-of-text glossary provides definitions for key terms used in the book. And our Web site (www.pearsoned.ca/bermanevans) includes a section on retailing careers as well as “How to Solve a Case Study,” which will aid you in your case analyses.

To underscore retailing's exciting nature, four real-world boxes appear in each chapter: “Careers in Retailing,” “Ethics in Retailing,” “Retailing Around the World,” and “Technology in Retailing.”

To further underscore the potential for retailing to be exciting and rewarding, consider that retil is thought by some to be or “the theatre of dreams”. Kevin Roberts, CFO of Publicis Group's Saatchi & Saatchi, believes that “The two most powerful media in your lifetime are going to remain the television screen and the store. Television because everybody's got one

and can use it... the theatre of dreams (the store) because 80 percent of decisions are made there.”¹³

Stuart Elliott, a long-time marketing columnist for the *New York Times*, recently reported on how The Grey Global Group of New York has expanded into retail sales management. This field is becoming increasingly important as marketers try to get closer to their customers at the final chance to make a sale—inside the stores. There, the salesforces of Grey Global’s new division—6500 strong—perform the day-to-day work that determines if a product will be sold. Echoing other research, they cite that the vast majority of all buying decisions are not made until the consumer is standing in front of a store shelf, choosing which of many brands to put in the shopping basket.

The point of sale is becoming increasingly important for two reasons. One is that the consumer media environment is becoming more fragmented making it more difficult to reach shoppers with traditional tactics. The other reason is that retailers are getting stronger, smarter and better at marketing.¹⁴

So, the power that used to rest almost entirely with the national brand marketers who used advertising to send people to the stores to demand their products is shifting to the retailer.

According to another analyst, “The core point here is that the advertising industry has taken its eye off the ball by not understanding the importance of distribution-channel management.” Retail is the last—and perhaps most important—piece of the puzzle.¹⁵ Retailing is the moment of truth. It is the theatre in which the audience of shoppers comes to the play. We hope you enjoy learning more about it.

Summary

In this and every chapter, the summary is related to the objectives stated at the beginning of the chapter.

1. *To define retailing, consider it from various perspectives, demonstrate its impact, and note its special characteristics.* Retailing comprises the business activities involved in selling goods and services to consumers for personal, family, or household use. It is the last stage in the distribution process. Today, retailing is at an interesting crossroads, with many challenges ahead.

Retailing may be viewed from multiple perspectives. It includes tangible and intangible items, does not have to involve a store, and can be done by manufacturers and others—as well as by retailers.

On a global basis, the world’s ten largest retailers generated sales of U.S.\$741.9 billion in 2003. Annual Canadian retail store sales were almost \$250 billion in 2003 (excluding motor vehicles and parts). This makes Canada the tenth-largest retail market in the world. The Canadian retail market is characterized by real growth and low risk. From a cost perspective, retailing is a significant field of study. Margins are very thin, with the average retailer earning a net return of approximately 6 percent.

Retailing encompasses all of the business and people involved in physically moving and transferring ownership of goods and services from producer to consumer. In a distribution channel, retailers perform valuable functions as the contact for manufacturers, wholesalers, and final consumers.

They collect assortments from various suppliers and offer them to customers. They communicate with both customers and other channel members. They may ship, store, mark, advertise, and pre-pay for items. They complete transactions with customers and often provide customer services. They may offer multiple formats (multi-channel retailing) to facilitate shopping.

Retailers and their suppliers have complex relationships because retailers serve in two capacities. They are part of a distribution channel aimed at the final consumer, and they are major customers for suppliers. Channel relations are smoothest with exclusive distribution; they are most volatile with intensive distribution. Selective distribution is a means of balancing sales goals and channel cooperation.

Retailing has several special characteristics. The average sales transaction is small. Final consumers make many unplanned purchases. Most customers visit a store location.

2. *To introduce the concept of strategic planning and apply it.* A retail strategy is the overall plan guiding the firm. It has six basic steps: defining the business, setting objectives, defining the customer market, developing an overall plan, enacting an integrated strategy, and evaluating performance and making modifications. Loblaw’s strategy has been particularly well designed and enacted.
3. *To show why the retailing concept is the foundation of a successful business, with an emphasis on the total retail experience,*

customer service, and relationship retailing. The retailing concept should be understood and used by all retailers. It requires a firm to have a customer orientation, use a coordinated effort, and be value driven and goal oriented. Despite its ease of use, many firms do not adhere to one or more elements of the retailing concept.

The total retail experience consists of all the elements in a retail offering that encourage or inhibit consumers during their contact with a retailer. Some elements are controllable by the retailer; others are not. Customer service includes identifiable, but sometimes intangible, activities undertaken by a retailer in association with the basic goods

and services sold. It has an effect on the total retail experience. In relationship retailing, a firm seeks long-term bonds with customers rather than acting as if each sales transaction is a totally new encounter with them.

4. *To indicate the focus and format of the text.* Retailing may be studied by using an institutional approach, a functional approach, and a strategic approach. Although all three approaches are covered in this book, our focus is on the strategic approach. The underlying principle is that a retail firm needs to plan for and adapt to a complex, changing environment.

KEY TERMS

channel of distribution (p. 7)

customer service (p. 14)

exclusive distribution (p. 8)

intensive distribution (p. 8)

multi-channel retailing (p. 8)

relationship retailing (p. 15)

retailing (p. 3)

retailing concept (p. 12)

retail strategy (p. 10)

selective distribution (p. 8)

sorting process (p. 7)

total retail experience (p. 13)

Questions for Discussion

1. What is your favourite retailer? Discuss the criteria you have used in making your selection. What can a competing firm do to lure you away from your favourite firm? Apply your answer to retailing in general.
2. What kinds of information do retailers communicate to customers? to suppliers?
3. What are the pros and cons of a firm, such as Roots, having its own retail facilities, as well as selling through traditional retailers?
4. Why would one retailer seek to be part of an exclusive distribution channel while another seeks to be part of an intensive distribution channel?
5. Describe how the special characteristics of retailing offer unique opportunities and problems for drugstores.
6. What is the purpose of developing a formal retail strategy? How could a strategic plan be used by your school's bookstore?
7. On the basis of the chapter's description of Loblaw's, present five suggestions that a new retailer should consider.
8. Explain the retailing concept. Apply it to a local Ford or Chevrolet dealer.
9. Define the term *total retail experience*. Then describe a recent retail situation in which you were dissatisfied and state why.
10. Do you believe that customer service in retailing is improving or worsening? Why?
11. How could a small Web-based retailer engage in relationship retailing?
12. Which checklist item(s) in Figure 1-12 do you think would be most difficult for Wal-Mart, as the world's largest retailer, to address? Why?

Web-Based Exercise

Visit the Web site of About Retail Industry (<http://retailindustry.about.com>). Describe the site and give several examples of what a prospective retailer could learn from this site.

Note: Stop by our Web site (www.pearsoned.ca/bermanevans) to experience a number of highly interactive, appealing Web exercises based on actual company demonstrations and sample materials related to retailing.



Chapter 2

Building and Sustaining Relationships in Retailing



Reprinted by permission.

In 1837, William Samuel Henderson founded the company that would eventually become Holt Renfrew, a Canadian “retail specialty store with international renown.” Today, Galen Weston owns the company, which sells high-end apparel and accessories.

Holt Renfrew has striven to create the image that the chain is “an exclusive club anybody can join.” In some of its stores there are cafés and spas and, in addition to the select designer merchandise, the company now carries private label brands at a lower price point than its traditional fare.

Sales associates at Holt Renfrew are considerably empowered to provide the highest level of customer service and some even earn upwards of \$100,000 a year. “Vendeuses,” as they are sometimes called, often send seasonal merchandise to the homes of their best customers soon after it arrives and “much of the good stuff never hits the floor of the store.” Its “innovative employment fairs” offer Sunday morning training sessions for employees of different departments to share specialized lessons with other in-store personnel. Holt Renfrew also employs a group of 43 tailors, fitters, and sewers to work exclusively for the store.

Since coming on board in 1998, company president Andrew Jennings has made some changes in an effort to improve the customer service levels. Holt Renfrew’s Web site (www.holtrenfrew.com) notes,

As the style leader in Canada, Holt Renfrew is committed to meeting customers’ evolving needs through continued leadership in our merchandise assortments as well as innovations in our customer services such as Holt Renfrew’s national concierge service and personal shopping in each store. Ultimately, it is the combination of these elements, together with an exciting and rewarding shopping experience, that distinguishes Holt Renfrew through its nine stores across Canada. Holt Renfrew locations across the country include: Quebec City, Montreal, Ottawa, Toronto (three stores), Calgary, Edmonton, and Vancouver.¹

Chapter Objectives

1. To explain what “value” really means and highlight its pivotal role in retailers’ building and sustaining relationships
2. To describe how both customer relationships and channel relationships may be nurtured in today’s highly competitive marketplace
3. To examine the differences in relationship building between goods and service retailers
4. To discuss the impact of technology on relationships in retailing
5. To consider the interplay between retailers’ ethical performance and relationships in retailing

Overview

To prosper, a retailer must properly apply the concepts of “value” and “relationship” so (a) customers strongly believe that the firm offers good value for the money and (b) both customers and channel members want to do business with that retailer. Some firms grasp this well. Others still have some work to do. Consider the views put forth by Sobeys president and CEO Bill McEwan about his company:

“Ready to serve™ is much more than an advertising slogan for our Sobeys banner stores. It is an all-encompassing attitude and approach we are adopting across our entire Company—in each store, distribution centre, regional office and community. Working together, we are focused on creating and executing a service delivery attitude that is superior to anything found in Canadian retailing. That means being Ready to serve our customers’ individual shopping experience expectations; our employees’ and franchise affiliates’ aspirations for a rewarding work and business environment; our suppliers’ appetites for long-term growth; and our shareholders’ expectations of ethical wealth creation.”²

As retailers look to the future, this is the looming bottom line on value (see Figure 2-1):

Consumers will demand more for less from the shopping experience. Time and budget constrained consumers will spend less time shopping, make fewer trips, visit fewer stores, and shop more purposefully. Different strokes will satisfy different folks. Consumers will shop different formats for different needs. Specifically, they will split the commodity shopping trip from the value-added shopping trip. Consumers are becoming more skeptical about price. Under the barrage of sales, price has lost its meaning; gimmicks have lost their appeal. To regain consumer confidence, pricing by retailers and manufacturers alike will become clearer, more sensible, and more sophisticated.³

This chapter looks at value and the value chain, relationship retailing with regard to customers and channel partners, the differences in relationship building between goods and service retailers, technology and relationships, and ethics and relationships. At the end of the chapter is Appendix 2A, on service retailing.

Visit the Sobeys Web site (www.sobeys.com) to learn more about its Ready to Serve™ philosophy and plans for the future in the 2003 Annual Report.



FIGURE 2-1

The Bay: Providing Extra Value for Customers

The Bay offers a number of services for customers to accommodate their desire for one-stop, time-conserving shopping. For example, several Bay locations across Canada contain Great Canadian Bagel franchises within the department store.

Source: The Great Canadian Bagel.

VALUE AND THE VALUE CHAIN

In many channels of distribution, there are several parties: manufacturer, wholesaler, retailer, and customer. These parties are most apt to be satisfied with their interactions when they have similar beliefs about the value provided and received and agree on the payment for that level of value.

From the perspective of the manufacturer, wholesaler, and retailer, value is embodied by a series of activities and processes—a value chain—that *provides* a certain value for the consumer. It is the totality of the tangible and intangible product and customer service attributes offered to shoppers. The level of value relates to each firm's desire for a fair profit and its niche (such as discount vs. upscale). Where firms may differ is in rewarding the value each provides and in allocating the activities undertaken.

From the customer's perspective, value is the *perception* the shopper has of a value chain. It is the customer's view of all the benefits from a purchase (formed by the total retail experience). Value is based on the perceived benefits received versus the price paid. It varies by type of shopper. Price-oriented shoppers want low prices, service-oriented shoppers will pay more for superior customer service, and status-oriented shoppers will pay a lot to patronize prestigious stores.

Why is “value” such a meaningful concept for every retailer in any kind of setting?

- Customers must always believe they got their money's worth, whether the retailer sells \$20,000 Rolex watches or \$40 Casio watches.
- A strong retail effort is required so that customers perceive the level of value provided in the manner the firm intends.
- Value is desired by all customers; however, it means different things to different customers.
- Consumer comparison shopping for prices is easy through ads and the World Wide Web. Thus, prices have moved closer together for different types of retailers.
- Retail differentiation is essential so a firm is not perceived as a “me too” retailer.
- A specific value/price level must be set. A retailer can offer \$100 worth of benefits for a \$100 item or \$125 worth of benefits (through better ambience and customer service) for the same item and a \$125 price. Either approach can work if properly enacted and marketed.

Grocery Gateway (www.grocerygateway.com) offers a unique value chain with its home delivery service.

A retail **value chain** represents the total bundle of benefits offered to consumers through a channel of distribution. It comprises store location and parking, retailer ambience, the level of customer service, the products/brands carried, product quality, the retailer's in-stock position, shipping, prices, the retailer's image, and other elements. As a rule, consumers are concerned with the results of a value chain, not the process. Food shoppers who buy online via Grocery Gateway care only that they receive the brands ordered when desired, not about the stops needed for home delivery at the neighbourhood level.

Some elements of a retail value chain are visible to shoppers—such as display windows, store hours, sales personnel, and point-of-sale equipment. Other elements are not visible—such as store location planning, credit processing, company warehouses, and many merchandising decisions. In the latter case, various cues are surrogates for value: upscale store ambience and plentiful sales personnel for high-end stores, shopping carts and self-service for discounters.

There are three aspects of a value-oriented retail strategy: expected, augmented, and potential. An *expected retail strategy* represents the minimum value chain elements a given customer segment (e.g., young women) expects from a type of retailer (e.g., a midpriced apparel retailer). In most cases, these are expected value chain elements: store cleanliness, convenient hours, well-informed employees, timely service, popular products in stock, parking, and return privileges. If applied poorly, expected elements cause customer dissatisfaction and relate to why shoppers avoid certain retailers.

An *augmented retail strategy* includes the extra elements in a value chain that differentiate one retailer from another. As an example, how is Sears different from Holt Renfrew? These are often augmented elements: exclusive brands, superior salespeople, loyalty programs, delivery, personal shoppers and other special services, and valet parking. Augmented

Compare Sears (www.sears.com) and Holt Renfrew (www.holtrenfrew.com).

RETAILING AROUND THE WORLD

Costco Grows in Japan

Costco (www.costco.com), the membership club chain, never assumed that the Japanese market would be easy. One of the firm's major tasks has been to adapt its U.S. concept of selling large package sizes to the Japanese marketplace where consumers typically live in small houses and apartments with very limited storage space. A strategy that appears to be working well is to sell products in multi-packs instead of in a single large box. This also enables Japanese shoppers to visit a Costco store together and then to divide their purchases.

Costco has also had to learn the shopping habits of Japanese shoppers and then fine-tune its merchandise selection to address them. Some of Costco's most popular products in Japan are U.S. items, such as basketball hoops and housewares; yet others are quite different—such as seaweed and dried fish. Surprisingly, doughnuts have become one of the most popular items in Costco's Japanese stores.

Despite its use of two-storey buildings in Japan, due to high real-estate costs and the low availability of retail sites, Costco still finds it tough to find appropriate new locations. As one Japanese retailing analyst explains, "That's why you don't see many foreign retailers in Japan."

Source: Doug Desjardins, "Costco Forges Ahead With Clubs No. 3 and 4," *Retailing Today*, May 6, 2002, pp. 4–5.

features complement expected value chain elements, and they are the key to continued customer patronage.

A *potential retail strategy* comprises value chain elements not yet perfected by a competing firm in the retailer's category. For example, what customer services could a new upscale apparel chain offer that no other chain offers? In many situations, these are potential value chain elements: 24/7 store hours (an augmented strategy for supermarkets), unlimited customer return privileges, full-scale product customization, instant fulfillment of rain checks through in-store orders accompanied by free delivery, and in-mall trams to make it easier for shoppers to move through enormous regional shopping centres. The first firms to capitalize on potential features gain a head start over their adversaries. Chapters accomplished this by opening the first book superstores, and Amazon.com has become a major player by opening the first online bookstore. Yet, even as pioneers, firms must excel at meeting customers' basic expectations and offering differentiated features from competitors if they are to grow.

There are five potential pitfalls to avoid in planning a value-oriented retail strategy:

- *Planning value with just a price perspective.* Value is tied to two factors: benefits and prices. Most discounters accept credit cards because shoppers want to purchase with them.
- *Providing value-enhancing services that customers do not want or will not pay extra for.* Ikea knows that most of its customers want to save money by assembling furniture themselves.
- *Competing in the wrong value/price segment.* Neighbourhood retailers generally have a tough time competing in the low-price part of the market. They are better off providing augmented benefits and charging somewhat more than large chains.
- *Believing augmented elements alone create value.* Many retailers think that if they offer a benefit not available from competitors, they will automatically prosper. Yet, they must never lose sight of the importance of expected benefits. A movie theatre with limited parking will have problems even if it features first-run movies.
- *Paying lip service to customer service.* Most firms say, and even believe, that customers are always right. Yet, they act contrary to this philosophy—by having a high turnover of salespeople, charging for returned goods that have been opened, and not giving rain checks if items are out of stock.

To sidestep these pitfalls, a retailer could use the checklist in Figure 2-2, which poses a number of questions that must be addressed. The checklist can be answered by an owner/corporate president, a team of executives, or an independent consultant. It should be reviewed at least once a year or more often if a major development, such as the emergence of a strong competitor, occurs.

Today Chapters

(www.chapters.indigo.ca) relies on both its stores and its Web site for revenues.

- ✓ Is value defined from a consumer perspective?
- ✓ Does the retailer have a clear value/price point?
- ✓ Is the retailer's value position competitively defensible?
- ✓ Are channel partners capable of delivering value-enhancing services?
- ✓ Does the retailer distinguish between expected and augmented value chain elements?
- ✓ Has the retailer identified meaningful potential value chain elements?
- ✓ Is the retailer's value-oriented approach aimed at a distinct market segment?
- ✓ Is the retailer's value-oriented approach consistent?
- ✓ Is the retailer's value-oriented approach effectively communicated to the target market?
- ✓ Can the target market clearly identify the retailer's positioning strategy?
- ✓ Does the retailer's positioning strategy consider trade-offs in sales versus profits?
- ✓ Does the retailer set customer satisfaction goals?
- ✓ Does the retailer periodically measure customer satisfaction levels?
- ✓ Is the retailer careful to avoid the pitfalls in value-oriented retailing?
- ✓ Is the retailer always looking out for new opportunities that will create customer value?

Figure 2-2 A Value-Oriented Retailing Checklist

Answer yes or no to each question.

RETAILER RELATIONSHIPS

In Chapter 1, we introduced the concept of *relationship retailing*, whereby retailers seek to form and maintain long-term bonds with customers, rather than act as if each sales transaction is a new encounter with them. For relationship retailing to work, enduring value-driven relationships are needed with other channel members, as well as with customers; developing these is a challenge. See in Figure 2-3 how Shoppers Drug Mart is meeting the challenge, and visit our Web site (www.pearsoned.ca/bermanevans) for links related to relationship retailing issues in general.

Customer Relationships

Loyal customers are the backbone of a business, as was discovered in an American grocery retailer's look at its frequent shopper program data:

Thirty percent of the company's customers represented over 75 percent of its profits. The president told the group, "We're in a new era of retailing. We must understand and manage our key customers much better than we have before. Our future rests on the ability to retain our customers. Competitors like Wal-Mart are making major inroads into our customer base. It is no longer enough to bring customers in with our weekly ads; we must learn how to provide a unique environment for our top customers."⁴

In relationship retailing, there are three factors to keep in mind: the customer base, customer service, customer satisfaction, and loyalty programs and defection rates. Let's explore these next.

The Customer Base Retailers must regularly analyze their customer base in terms of population and lifestyle trends, attitudes toward and reasons for shopping, the level of loyalty, and the mix of new versus loyal customers.

The Canadian population is aging. One-fourth of all households have only one person, four-tenths of the population have moved in five years, most people live in urban and suburban areas, the number of working women is high, middle-class income has been rising slowly, and immigration is becoming an increasingly important component of Canada's population growth. Thus, gender roles are changing, shoppers demand more, market segments are more diverse, there is less interest in shopping, and time-saving goods and services are desirable.

There are various factors that influence shopping behaviour:

- More women than men enjoy shopping, and men shop more quickly than women. However, the shopping behaviour of younger men (ages 18 to 34) is more similar to their female counterparts.⁷
- Due to their time constraints, consumers now spend an average of only 75 minutes when visiting a shopping mall. Working women account for 42 percent of all mall purchases.
- Consumers' most important reasons to shop at a given *apparel retailer* are product availability, ease in finding products, confidence in products, ease of shopping, and convenience of the location.
- Consumers' most important reasons to shop at a given *discount department store* are convenience, price, and assortment and quality of merchandise.
- Consumers' most important reasons to shop at a given *supermarket* are cleanliness, prices, accuracy in price scanning at the register, and how clearly prices are labelled.⁵

It is worth nurturing relationships with some shoppers more than with others; they are the retailer's **core customers**—its best customers. And they should be singled out:

The most practical way to get started is by answering three questions. First, which of your customers are the most profitable and the most loyal? Look for those who spend more money, pay their bills promptly, are reasonable in their customer service requests, and seem to prefer stable, long-term relationships. Second, which customers place the greatest value on what you have to offer? Some customers will have found that your products, customer services, and special strengths are simply the best fit for them. Third, which customers are worth more to you than to your competitors? Some warrant extra effort and investment. Yet, no firm can be all things to all people: Customers who are worth more to a competitor will eventually defect.⁶

A retailer's desired mix of new versus loyal customers depends on that firm's stage in its life cycle, goals, and resources, and its competitors' actions. A mature firm is more apt to rely on core customers and supplement its revenues with new shoppers. A new firm faces the dual tasks of attracting shoppers and building a loyal following; it cannot do the latter without the former. If goals are growth-oriented, the customer base must be expanded by adding stores, increasing advertising, and so on; the challenge is to do this in a way that does not deflect attention from core customers. Although it is more costly to attract new customers than to serve existing ones, core customers are not cost-free. If competitors try to take away a firm's existing customers with price cuts and special promotions, a retailer may feel that it must pursue competitors' customers in the same way. Again, it must be careful not to alienate core customers.

Customer Service As described in Chapter 1, *customer service* refers to the identifiable, but sometimes intangible, activities undertaken by a retailer in conjunction with the goods and services it sells. Customer service affects the total retail experience. Consistent with a

Fig 2-3 New
(screen shot of Shoppers Drug Mart)

unknown size, will cause text to reflow

Figure 2-3

Shoppers Drug Mart and the HealthWATCH® System

HealthWATCH®, a pharmacy computer system designed specifically for Shoppers Drug Mart, maintains medication profiles of individual patients and generates alerts and warnings for possible allergies or drug interactions every time a prescription is filled. Such a system enables HealthWATCH pharmacists to work closely with health care professionals and patients to improve health care services. Shoppers Drug Mart is committed to keeping the HealthWATCH SYSTEM current with each new technological development so that customers will have the added peace of mind that their health is in good hands when they fill a prescription at the retail outlet.

Reprinted by permission.

Take A Hike! The Outdoor Adventure Company (www.takeahike.on.ca) offers unique customer services.

value chain philosophy, retailers must apply two elements of customer service: **expected customer service** is the service level that customers want to receive from any retailer, such as basic employee courtesy; **augmented customer service** includes the activities that enhance the shopping experience and give retailers a competitive advantage. Take A Hike! The Outdoor Adventure Company does a good job with both expected and augmented services where “Staff members take the time to explain how products work and encourage customers to try out snowshoes and backpacks by renting them out for the weekend.” If a customer decides to purchase any of the items that were rented, the rental fee is deducted from the purchase price.⁷

The attributes of personnel who interact with customers (such as politeness and knowledge), as well as the number and variety of customer services offered, have a strong effect on the relationship created.⁸ Here are two opposite consumer perceptions related to their customer service experiences:

My wife likes to shop at the local Safeway. Is it because of the prices? Yes, that’s part of it. Is it because of the location? Yes, that’s part of it too. She also likes the produce department. But the biggest reason she likes to shop at the local Safeway is “Marshall,” who is a very good checkout person. He’s fast, efficient, and seldom makes a mistake. But his competency is not why my wife keeps going back. She goes back because Marshall always has a warm and friendly smile. And because when Marshall asks, “How are you today?” you know he’s sincere about it.⁹

Enticed by an ad to visit the store, I spent 10 minutes inside without being greeted. Two employees were tossing a sponge football around while talking about their previous night’s adventure. Another employee was busy shopping for himself and soliciting fashion advice from the previous two. As I interrupted them to help direct me to the item that was in the ad, they were clueless about the ad but pointed me in the direction where I might be able to help myself. The scene at the checkout didn’t improve. There was no greeting and the young lady never looked at me.¹⁰

Planning the best customer service strategy can be complex: “Although the current state of retailing is causing firms to cut costs in many areas of their businesses, customers still expect the same level of service,” said one expert. Customer service satisfaction “has always been a key for positive financial results. Businesses must not make customer service investments only to keep pace with growth—they should view their spending as a strategic benefit to bring greater customer satisfaction and retention.”¹¹

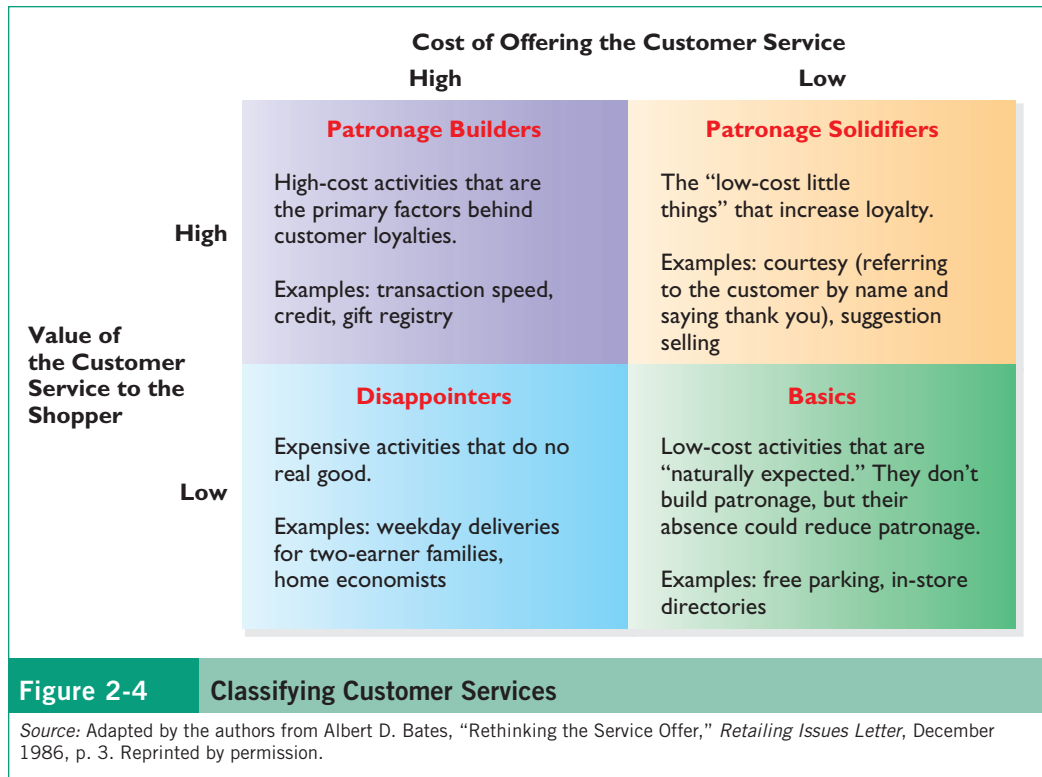
Home Depot (www.homedepot.ca) really believes in empowering its employees to better serve customers.

Some retailers realize that customer service is better when they utilize **employee empowerment**, whereby workers have the discretion to do what they believe is necessary—within reason—to satisfy the customer, even if this means bending some rules. The Running Room has an employee turnover rate of about half the industry average because of its ability to attract high-performing staff passionate about the business. These employees are able to deliver higher levels of customer service because they are not paid a commission and are encouraged to take every step required to ensure that the customer gets exactly what is required.¹² At Home Depot, each worker on the selling floor gets several weeks of training prior to meeting customers. Employees have wide latitude in making on-the-spot decisions. They can act as consultants and problem solvers. Consider these industrywide statistics: “73 percent of consumers attribute their best customer-service experience to retail employees. Conversely, 81 percent attribute their worst customer-service experience to retail employees.”¹³

To apply customer service effectively, a firm must first develop an overall service strategy and then plan individual services. Figure 2-4 shows one way a retailer may view the customer services it offers.

DEVELOPING A CUSTOMER SERVICE STRATEGY A retailer must make the following fundamental decisions.

What customer services are expected and what customer services are augmented for a particular retailer? Examples of expected customer services are credit for a furniture retailer, new-car preparation for an auto dealer, and a liberal return policy for a gift shop. Those retailers could not stay in business without them. Because augmented customer services are extra



elements, a firm could serve its target market without such services; however, using them enhances a firm’s competitive standing. Examples are delivery for a supermarket, an extra warranty for an auto dealer, and gift wrapping for a toy store. Each firm needs to determine which customer services are expected and which are augmented for its situation. Expected customer services for one retailer, such as delivery, may be augmented for another. See Figure 2-5.

What level of customer service is proper to complement a firm’s image? An upscale retailer would offer more customer services than a discounter because people expect the upscale firm to have a wider range of customer services as part of its basic strategy. In addition, performance would be different. Customers of an upscale retailer may expect elaborate gift wrapping, valet parking, a restaurant, and a ladies’ room attendant, whereas discount shoppers may expect cardboard gift boxes, self-service parking, a lunch counter, and an unattended ladies’ room. Customer service categories are the same; performance is not.

Should there be a choice of customer services? Some firms let customers select from various levels of customer service; others provide only one level. A retailer may honour several credit cards or only its own. Trade-ins may be allowed on some items or all. Warranties may have optional extensions or fixed lengths. A firm may offer one-, three-, and six-month payment plans or insist on immediate payment.

Should customer services be free? Two factors cause retailers to charge for some customer services: (1) Delivery, gift wrapping, and some other customer services are labour intensive. (2) People are more apt to be home for a delivery or service call if a fee is imposed. Without a fee, a retailer may have to attempt a delivery twice. In settling on a free or fee-based strategy, a firm must determine which customer services are expected (these are often free) and which are



Figure 2-5 Augmented Services: Going Above and Beyond

To better serve its supermarket customers, Loblaw Companies has partnered with Egrocer to provide online ordering and home delivery. Reprinted by permission of Loblaw Companies.

Staples (www.staples.ca) offers free delivery on orders of \$50 or more.

augmented (these may be offered for a fee), monitor competitors and profit margins, and study the target market. In setting fees, a retailer must also decide if its goal is to break even or to make a profit on certain customer services.

How can a retailer measure the benefits of providing customer services against their costs? The purpose of customer services is to enhance the shopping experience in a manner that attracts and retains shoppers while maximizing sales and profits. Thus, augmented customer services should not be offered unless they raise total sales and profits. A retailer should plan augmented customer services based on experience, competitors' actions, and customer comments; and when the costs of providing these customer services increase, higher prices should be passed on to the consumer.

How can customer services be terminated? Once a customer service strategy is set, shoppers are likely to react negatively to any customer service reduction. Nonetheless, some costly augmented customer services may have to be dropped. In that case, the best approach is to be forthright by explaining why the customer services are being terminated and how customers will benefit via lower prices. Sometimes a firm may use a middle ground, charging for previously free customer services (such as clothing alterations) to allow those who want the services to still receive them.

PLANNING INDIVIDUAL CUSTOMER SERVICES Once a broad customer service plan is outlined, individual customer services are planned. A department store may offer credit, layaway, gift wrapping, a bridal registry, free parking, a restaurant, a beauty salon, carpet installation, dressing rooms, clothing alterations, pay phones, rest rooms and sitting areas, the use of baby strollers, delivery, and fur storage. The range of typical customer services is shown in Table 2-1 and described next.

Most retailers let customers make credit purchases, and many firms accept personal cheques with proper identification. Consumers' use of credit rises as the purchase amount goes up. Retailer-sponsored credit cards have three key advantages: (1) the retailer saves the fee it would pay for outside card sales, (2) people are encouraged to shop with a given retailer because its card is usually not accepted elsewhere, and (3) contact can be maintained with customers and information learned about them. There are also disadvantages to retailer cards: start-up costs are high, the firm must worry about unpaid bills and slow cash flow, credit checks and follow-up tasks must be performed, and customers without the firm's card may be discouraged from shopping.

Bank and other commercial credit cards enable small and medium-sized retailers to offer credit, generate added business for all types of retailers, appeal to mobile shoppers, provide advertising support from the sponsor, reduce bad debts, eliminate start-up costs for the retailer, and provide data. Yet, these cards charge a transaction fee and do not yield loyalty to the retailer.

All bank cards and most retailer cards involve a **revolving credit account**, whereby a customer charges items and is billed monthly on the basis of the outstanding cumulative balance.

TABLE 2-1 Typical Customer Services		
Credit	Miscellaneous	
Delivery	• Bridal registry	• Rest rooms
Alterations and installations	• Interior designers	• Restaurant
Packaging (gift wrapping)	• Personal shoppers	• Baby-sitting
Complaints and returns handling	• Ticket outlets	• Fitting rooms
Gift certificates	• Parking	• Beauty salon
Trade-ins	• Water fountains	• Fur storage
Trial purchases	• Pay phones	• Shopping bags
Special sales for regular customers	• Baby strollers	• Information
Extended store hours		
Mail and phone orders		

An **option credit account** is a form of revolving account; no interest is assessed if a person pays a bill in full when it is due. Should a person make a partial payment, he or she is assessed interest monthly on the unpaid balance. Some credit card firms (such as American Express) and some retailers offer an **open credit account**, whereby a consumer must pay the bill in full when it is due. Partial, revolving payments are not permitted. A person with an open account also has a credit limit.

For a retailer that offers delivery, there are three decisions: the transportation method, equipment ownership versus rental, and timing. The shipping method can be car, van, truck, rail, mail, and so forth. The costs and appropriateness of the methods depend on the products. Large retailers often find it economical to own their delivery vehicles. This also lets them advertise the company name, have control over schedules, and use their employees for deliveries. Small retailers serving limited trading areas may use personal vehicles. Many small, medium, and even large retailers use such firms as United Parcel Service if consumers live away from a delivery area and shipments are not otherwise efficient. Finally, the retailer must decide how quickly to process orders and how often to deliver to different locales.

For some retailers, alterations and installations are expected customer services, although more retailers now charge fees. However, many discounters have stopped offering alterations of clothing and installations of heavy appliances on both a free and a fee basis. They feel that the services are too ancillary to their business and not worth the effort. Other retailers offer only basic alterations: shortening pants, taking in the waist, and lengthening jacket sleeves. They do not adjust jacket shoulders or width. Some appliance retailers may hook up washing machines but not do plumbing work.

Within a store, packaging (gift wrapping)—as well as complaints and returns handling—can be centrally located or decentralized. Centralized packaging counters and complaints and returns areas have key advantages: They may be situated in otherwise dead spaces; the main selling areas are not cluttered; specialized personnel can be used; and a common policy is enacted. The advantages of decentralized facilities are that shoppers are not inconvenienced; people are kept in the selling area, where a salesperson may resolve a problem or offer different merchandise; and extra personnel are not required. In either case, clear guidelines as to the handling of complaints and returns are needed.

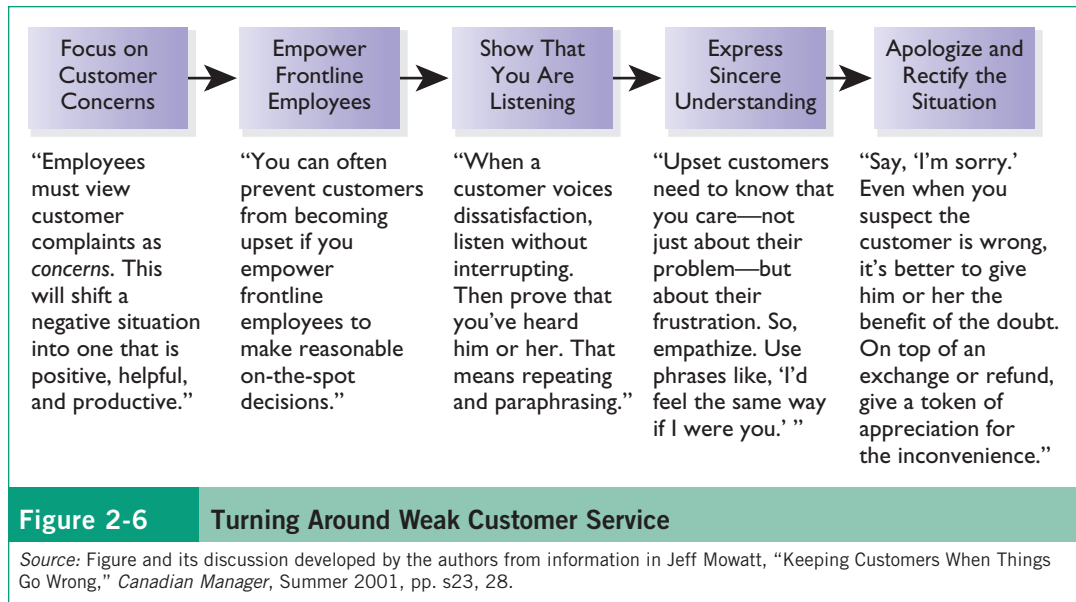
Gift certificates encourage shopping with a given retailer. Many firms require gift certificates to be spent and not redeemed for cash. Trade-ins also induce new and regular shoppers to shop. People get the feeling of a bargain. Trial purchases let shoppers test products before purchases are final to reduce risks.

Retailers increasingly offer special customer services to regular customers. Sales events (not open to the general public) and extended hours are provided. Mail and phone orders are handled for convenience.

Other useful customer services include a bridal registry, interior designers, personal shoppers, ticket outlets, free (or low-cost) and plentiful parking, water fountains, pay phones, baby strollers, rest rooms, a restaurant, baby-sitting, fitting rooms, a beauty salon, fur storage, shopping bags, and information counters. A retailer's willingness to offer some or all of these services shows customers its concern for them. Therefore, firms need to consider the impact of excessive self-service.

Customer Satisfaction Customer satisfaction occurs when the value and customer service provided through a retailing experience meet or exceed consumer expectations. If the expectations of value and customer service are not met, the consumer will be dissatisfied. Only “very satisfied” customers are likely to remain loyal in the long run. How well are retailers doing in customer satisfaction? Many have much work to do. Although little Canadian data are available on customer satisfaction in the retail industry, the American Customer Satisfaction Index annually questions thousands of people to link customer expectations, perceived quality, and perceived value to satisfaction. Overall, retailers consistently score only about 75 on a scale of 100. Fast-food firms usually rate lowest in the retailing category (with scores around 70). To improve matters, retailers should engage in the process shown in Figure 2-6.

Most consumers do not complain when dissatisfied—they just shop elsewhere. Why don't shoppers complain more? (1) Because most people feel that complaining produces few or no positive results, they do not bother to complain. (2) Complaining is not easy. Consumers



Try out some of CustomerSat.com's (www.customersat.com) tools for measuring customer satisfaction.

have to find the party to whom they should complain, access to that party may be restricted, and written forms may have to be completed.

To obtain more feedback, retailers must make it easier for shoppers to complain, make sure shoppers believe their concerns are being addressed, and sponsor ongoing customer satisfaction surveys. As suggested by consulting firm CustomerSat.com, retailers should ask such questions as these and then take corrective actions reflecting their shoppers' feelings:

1. "Please rate our customer service."
2. "How often does our customer service exceed expectations?"
3. "What do you like most about our customer service?" "What do you like least?"

Loyalty Programs Consumer loyalty (frequent shopper) programs reward a retailer's best customers, those with whom it wants long-lasting relationships. More than 70 percent of all Canadian households participate in at least one loyalty program.¹⁴ And, according to AC Nielsen, here's what consumers want:

When structuring a frequent shoppers' club, retailers should keep in mind what consumers see as the chief benefit: getting a deal. For almost two-thirds of the public, receiving "a percentage discount on all purchases" is the feature that would "most likely" encourage them to participate. One-third would be attracted by "advance notice of upcoming sales"; 31 percent would look for either "special coupons for new products" or "coupons or discounts on goods and services from other vendors"; 29 percent are attracted by "cash-back offers"; and almost a quarter want a "free gift with purchase." Relatively few overall are attracted by invitations to special events or parties (10 percent), preferred parking (10 percent), or personal shopping assistance (9 percent). Just as important as the attractions are the turnoffs. In a time when headlines often are devoted to privacy issues, it should come as no surprise that the top consumer negative has to do with this topic.¹⁵

Loyalty programs can take a variety of forms. Canadian Tire operates the oldest and most widely recognized loyalty program in Canada. The company's Web site boasts of distributing more than \$100 million in Canadian Tire "money" every year. Air Miles, operated by The Loyalty Group, is a coalition program involving a number of different retailers and has the highest participation rate of all frequent shopper programs in the country. Interestingly, the coalition model is becoming the most popular type of loyalty program around the world outside of the United States and Mexico.¹⁶

One other loyalty program worthy of note in Canada is Hbc Rewards. This program is interesting because, although it is not a coalition program by definition, it is evolving in

CAREERS IN RETAILING

What Can We Learn From Dave Thomas?

Dave Thomas, the founder of Wendy's (www.wendys.com), left a rich retailing legacy when he passed away in 2002.

Dave Thomas always loved going to restaurants where he could see families together. At 12 years old he began his career working at a barbecue restaurant in Knoxville, Tennessee, before moving into management at Kentucky Fried Chicken and being mentored by none other than KFC's founder, Colonel Harland Sanders. After founding Wendy's, the family-oriented restaurant chain that specialized in offering value meals to middle-class families, Thomas wrote *Dave's Way*, an autobiography focused on the development of his business and the lessons he learned along the way.

There is much to be learned from the humble Dave Thomas, who thought of himself as "simply a hamburger cook," including

- **Leadership:** Thomas spent much of his time in his stores and sought to "lead by example."
- **Differentiation:** Thomas was the first fast-food operator to introduce salad bars.
- **Customer service:** Thomas was obsessed with creating a pleasurable shopping environment.

Sources: Tony Lisanti, "A Tribute to Two Retail Leaders," *DSN Retailing Today*, February 25, 2002, p. 13; CNN, "Wendy's Founder Dead at 69", *CNN Money*, January 8, 2002, http://money.cnn.com/2002/01/08/companies/wendys_obit/; and AandE.com, "Biography: Dave Thomas," <http://store.aetv.com/html/product/index.jhtml?id=17295>, August 10, 2004.

that direction. The program currently has a number of partners, which serves to increase the value of the rewards provided to its users. Hbc Rewards members can now earn Hbc Rewards through their CIBC accounts and have the option of converting their rewards earned at Hbc locations to either Air Miles or Esso Extra Points. Members are able to make charitable donations with their rewards points as well.

What do good customer loyalty programs have in common? Their rewards are useful and appealing, and they are attainable in a reasonable time. The programs honour shopping behaviour (the greater the purchases, the greater the benefits). A database tracks behaviour. There are features that are unique to particular retailers and not redeemable elsewhere. Rewards stimulate both short- and long-run purchases. Customer communications are personalized. Frequent shoppers feel "special." Participation rules are publicized and rarely change.

Despite the fact that loyalty program participants (both consumers and practitioners) are showing fatigue with basic frequent shopper models, some retailers are making truly innovative, exciting offerings. Such is the case with Harrods of London's "By Invitation" program as reported by Colloquy:

Customers redeeming enough points can take a chauffeur-driven trip to the studios of jeweller Boodle & Dunthorne and create their own jewellery with top designer Rebecca Hawkins; take a day trip to Florence with Harrods' bed linen buyer; enjoy classic motor racing experiences; or spend the day on chairman Mohamed Al Fayed's 65,000-acre Balnagown estate.

When a retailer studies customer defections (by tracking databases or surveying consumers), it can learn how many customers it is losing and why they no longer patronize the firm. Customer defections may be viewed in absolute terms (people who no longer buy from the firm at all) and in relative terms (people who shop less often). Each retailer must define its acceptable defection rate. Furthermore, not all shoppers are "good" customers. A retailer may not mind defections by shoppers who always look for sales, return items without receipts, and expect fee-based services to be free. Unfortunately, too few retailers review defection data or survey defecting customers because of the complexity of doing so and an unwillingness to hear "bad news."

Shoppers Drug Mart (www.shoppersdrugmart.ca) has a substantial loyalty program (Shoppers Optimum) for its pharmacy customers.

Channel Relationships

Within a value chain, the members of a distribution channel (manufacturers, wholesalers, and retailers) jointly represent a **value delivery system**, which comprises all the parties that develop,

produce, deliver, and sell and service particular goods and services. The ramifications for retailers follow:

- Each channel member is dependent on the others. When consumers shop with a certain retailer, they often do so because of both the retailer and the products it carries.
- All value delivery system activities must be enumerated and responsibility assigned for them.
- Small retailers may have to use suppliers outside the normal distribution channel to get the products they want and gain adequate supplier support. Although large retailers may be able to buy directly from manufacturers, smaller retailers may have to buy through wholesalers that handle small accounts.
- A value delivery system is as good as its weakest link. No matter how well a retailer performs its activities, it will still have unhappy shoppers if suppliers deliver late or do not honour warranties.
- The nature of a given value delivery system must be related to target market expectations.
- Channel member costs and functions are influenced by each party's role. Long-term cooperation and two-way information flows foster efficiency.
- Value delivery systems are complex due to the vast product assortment of superstores, the many forms of retailing, and the use of multiple distribution channels by some manufacturers.
- Nonstore retailing (such as mail-order, phone, and Web transactions) requires a different delivery system than does store retailing.
- Due to conflicting goals about profit margins, shelf space, and so on, some channel members are adversarial—to the detriment of the value delivery system and channel relationships.

When they forge strong positive channel relationships, members of a value delivery system better serve each other and the final consumer. Here's how:

Traditionally, the relationship between retailers and suppliers was, at best, arm's length. The manufacturers' goal was to move the greatest volume of goods at the highest price. The retailers' goal was to negotiate the lowest price for the goods. Competitive pressures led to a new paradigm. It focused on a simple idea: make sure the right product at the right price is on the shelf when the customer enters the store, while maintaining the lowest possible inventory at all points in the pipeline from suppliers to retailer. This requires cooperation between retailers and upstream suppliers.¹⁷

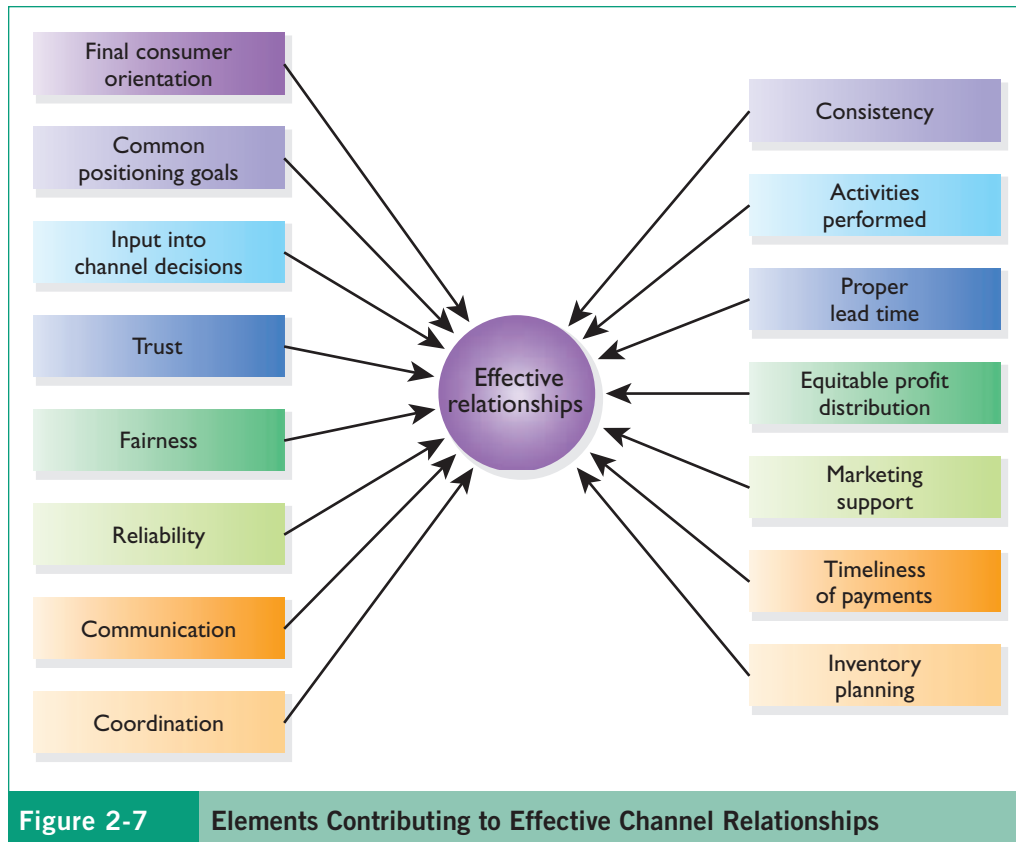
Blockbuster (www.blockbuster.ca) guarantees that popular movies will be in stock, due to its novel approach with vendors.

The new strategy for Blockbuster is simple: stock more of the new releases that customers want. Before, the average customer had to visit a store five consecutive weekends to get the desired movie. To change that, Blockbuster overhauled its business model. In the past, it bought tapes from studios for about \$65 apiece. Inventory got expensive, limiting its willingness to invest in too many copies of one film. Now Blockbuster has revenue sharing with most major studios. The deals dramatically lower Blockbuster's up-front costs. In exchange, Blockbuster hands over about one-half of revenue.¹⁸

Randy Howatt's independent grocery store—Howatt's Valufoods, in Petitcodiac, New Brunswick—expects to see the benefits of cooperation. The retailer formalized a supply relationship with Co-op Atlantic in July 2004 that should allow Howatt's Valufoods to leverage the wholesaling expertise of the second-largest regional co-op wholesaler in Canada.

One relationship-oriented practice that some manufacturers and retailers use, especially supermarket chains, is *category management*, whereby channel members collaborate to manage products by category rather than by individual item. Category management is based on these principles: (1) Retailers listen more to customers and stock what they want. (2) Profitability is improved because inventory matches demand more closely. (3) By being better focused, each department is more desirable for shoppers. (4) Retail buyers are given more responsibilities and accountability for category results. (5) Retailers and suppliers must share data and be more computerized. (6) Retailers and suppliers must plan together. Category management is discussed further in Chapter 14.

Figure 2-7 shows various factors that contribute to effective channel relationships.



THE DIFFERENCES IN RELATIONSHIP BUILDING BETWEEN GOODS AND SERVICE RETAILERS

The consumer interest in services makes it crucial to understand the differences in relationship building between retailers that market services and those that market goods. This applies to store-based and nonstore-based firms, those offering only goods *or* services, and those offering goods *and* services.

Goods retailing focuses on the sale of tangible (physical) products. **Service retailing** involves transactions in which consumers do not purchase or acquire ownership of tangible products. Some retailers engage in either goods retailing (such as hardware stores) or service retailing (such as travel agencies); others offer a combination of the two (such as video stores that rent as well as sell movies). The latter format is the fastest-growing. Consider how many pharmacies offer film developing, how many department stores have beauty salons, how many hotels have gift shops, and so on.

Service retailing encompasses such diverse businesses as personal services, hotels and motels, auto repair and rental, and recreational services. In addition, although several services have not been commonly considered a part of retailing (such as medical, dental, legal, and educational services), they should be when they entail final consumer sales. There are three kinds of service retailing:

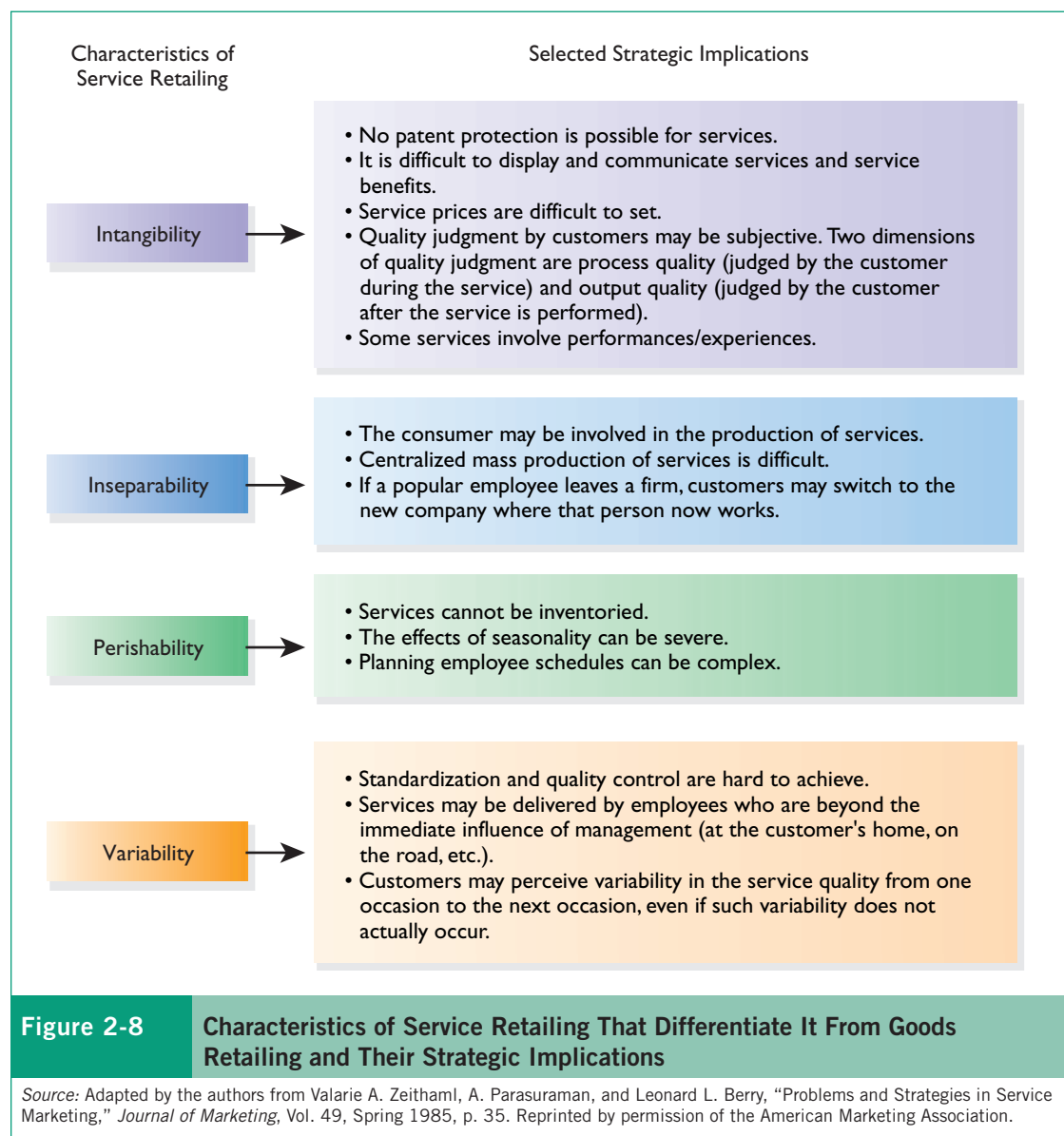
- **Rented-goods services**, whereby consumers lease and use goods for specified periods of time. Tangible goods are leased for a fixed time, but ownership is not obtained and the good must be returned when the rental period is up. Examples are Hertz car rentals, carpet cleaner rentals at a supermarket, and video rentals at a 7-Eleven.
- **Owned-goods services**, whereby goods owned by consumers are repaired, improved, or maintained. In this grouping, the retailer providing the service never owns the good involved. Illustrations include watch repair, lawn care, and an annual air-conditioner tune-up.

- **Nongoods services**, whereby intangible personal services are offered to consumers, who then experience the services rather than possess them. The seller offers personal expertise for a specified time in return for a fee; tangible goods are not involved. Some examples are stockbrokers, travel agents, real-estate brokers, and personal trainers.

Please note: The terms *customer service* and *service retailing* are not interchangeable. Customer service refers to the activities undertaken *in conjunction with* the retailer's main business; they are part of the total retail experience. Service retailing refers to situations in which services *are sold to* consumers.

There are four unique aspects of service retailing that influence relationship building and customer retention. (1) The intangibility of many services makes a consumer's choice of competitive offerings tougher than with goods. (2) The service provider and his or her services are sometimes inseparable (thereby localizing marketing efforts). (3) The perishability of many services prevents storage and increases risks. (4) The aspect of human nature involved in many services makes them more variable.

The intangible (and possibly abstract) nature of services makes it harder for a firm to develop a clear consumer-oriented strategy, particularly because many retailers (such as



opticians, repairpeople, and landscapers) start service businesses on the basis of their product expertise. The inseparability of the service provider and his or her services means that the owner–operator is often indispensable and good customer relations are pivotal. Perishability presents a risk that in many cases cannot be overcome. Thus, revenues from an unrented hotel room are forever lost. Variability means that service quality may differ for each shopping experience, store, or service provider. See Figure 2-8.

Service retailing is much more dependent on personal interactions and word-of-mouth communication than is goods retailing:

Relationship marketing benefits the customer, as well as the firm. For services that are personally important, variable in quality, and/or complex, many customers will desire to be “relationship customers.” Medical, banking, insurance, and hairstyling services illustrate some or all of the significant factors—importance, variability, and complexity—that would cause many customers to desire continuity with the same provider, a proactive service attitude, and customized service delivery. The intangible nature of services makes them difficult for customers to evaluate prior to purchase. The heterogeneity of labour-intensive services encourages customer loyalty when excellent service is experienced. Not only does the auto repair firm want to find customers who will be loyal, but customers want to find an auto repair firm that evokes their loyalty. Knowledge of the customer combined with social rapport built over a series of service encounters facilitates the tailoring of service to customer specifications. Relationship marketing does not apply to every service situation. However, for those services distinguished by the characteristics discussed here, it is potent.¹⁹

Figure 2-9 highlights several factors that consumers may consider in forming their perceptions about the calibre of the service retailing experience offered by a particular firm. Appendix 2A presents an additional discussion on the unique aspects of operating a service retailing business.

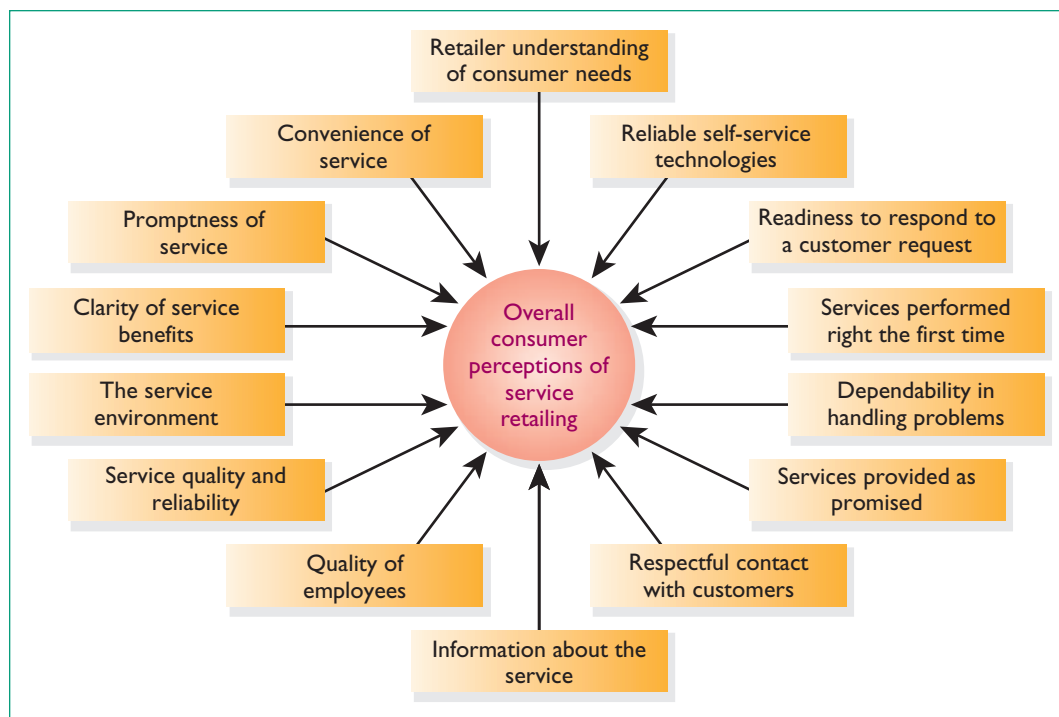


Figure 2-9 Selected Factors Affecting Consumer Perceptions of Service Retailing

Source: Adapted by the authors from Leonard L. Berry, Kathleen Seiders, and Dhruv Grewal, “Understanding Service Convenience,” *Journal of Marketing*, Vol. 66, July 2002, pp. 1–17; and Hung-Chang Chiu, “A Study on the Cognitive and Affective Components of Service Quality,” *Total Quality Management*, Vol. 13, March 2002, pp. 265–274.

Weed Man (www.weed-man.com) makes itself more approachable through its descriptive name.

TECHNOLOGY AND RELATIONSHIPS IN RETAILING

Technology is beneficial to retailing relationships if it facilitates a better communication flow between retailers and their customers, as well as between retailers and their suppliers, and if there are faster, more dependable transactions.

These two points should be considered in studying technology and its impact on relationships in retailing. First, in each firm, the roles of technology and “humans” must be clear and consistent with the objectives and style of that business. Although technology can be a great aid in providing customer service, it can become overloaded and break down. It is also viewed as impersonal or “cold” by some consumers. New technology must be set up as efficiently as possible with minimal disruptions to suppliers, employees, and customers. Second, customers expect certain operations to be in place, so they can rapidly complete credit transactions, get feedback on product availability, and so on. Firms have to deploy some advances (such as a computerized checkout system) simply to be competitive. By enacting other advances, they can carve out differential advantages. For instance, consider the paint store with computerized paint-matching equipment for customers who want to buy paint to touch up old jobs.²⁰

Throughout this book, we devote a lot of attention to technological advances through “Technology in Retailing” boxes and in-chapter discussions. Here, we look at technology’s effects in terms of electronic banking and customer/supplier interactions.

Electronic Banking

Electronic banking involves both the use of automated teller machines (ATMs) and the instant processing of retail purchases. It allows centralized recordkeeping and lets customers complete transactions 24 hours a day, seven days a week at bank and nonbank locations—including home or office. Besides its use in typical financial transactions (such as cheque cashing, deposits, withdrawals, and transfers), electronic banking is now used in retailing. Many retailers accept some form of electronic debit payment plan (discussed further in Chapter 13) whereby the purchase price is immediately deducted from a consumer’s bank account by computer and transferred to the retailer’s account.

Worldwide, there are one billion ATMs—35,000 of which are in Canada—and people make billions of ATM transactions yearly.²¹ ATMs are located in banks, shopping centres, department stores, supermarkets, convenience stores, hotels, and airports; on college campuses; and at other sites. With sharing systems—such as the Interac, Cirrus, and Plus networks—consumers can make transactions at ATMs outside their local banking areas and around the world.

A highly touted, but thus far limited in use, new version of electronic payment is called the *smart card* by industry observers. The smart card contains an electronic strip that stores and modifies customer information as transactions take place. It is similar to a pre-paid phone card, in that the consumer buys a computer-coded card available in denominations of \$10, \$20, \$50, \$100, and more. As the customer shops, card readers deduct the purchase amounts from the card. After they are used up, the cards are thrown away or are recoded. However, unlike with cash payments, retailers pay a fee for smart card transactions. In the future, “smarter” smart cards are expected to be more permanent and store more information (such as frequent shopper points). MasterCard has been experimenting with a smart card that can reward loyal shoppers with coupons, gifts, and other incentives.²²

Customer and Supplier Interactions

Technology is changing the nature of retailer–customer and retailer–supplier interactions. If applied well, benefits accrue to all parties. If not, there are negative ramifications. Here are several illustrations.

Retailers widely use point-of-sale scanning equipment. Why? By electronically scanning products (rather than having cashiers “ring up” each product), retailers can quickly complete transactions, amass sales data, give feedback to suppliers, place and receive orders faster, reduce costs, and adjust inventory. There is a downside to scanning: the error rate. This can upset consumers, especially if they perceive scanning to be inaccurate. Yet, according to a

United States Federal Trade Commission (FTC) study, scanner errors in reading prices occurred only 3.4 percent of the time; and although consumers believe that most errors result in overcharges, the FTC found that overcharges and undercharges were equally likely.²³ One way to reassure consumers is to display more information at the point of purchase. To help retailers with scanner practices, the Scanner Price Accuracy Voluntary Code (“the Code”) evolved from the collaborative efforts of the Retail Council of Canada (RCC), the Canadian Association of Chain Drug Stores (CACDS), the Canadian Federation of Independent Grocers (CFIG), and the Canadian Council of Grocery Distributors (CCGD).²⁴

A popular new point-of-sale system involves self-scanning (which is discussed further in Chapter 13). Here’s how a basic system works:

A supermarket customer scans the groceries and sacks them. The sacking area is built atop a scale linked to the scanner that alerts the customers if an item was scanned twice or not at all. After all items are scanned, the customer scans in any coupons and selects a payment method. The machine accepts cash, credit, and debit cards, and electronic benefits transfers. Customers can use cheques and food stamps but will need assistance from a cashier. Additionally, a cashier monitoring the checkout stations will be required to enter the birth dates of customers purchasing alcohol or cigarettes.²⁵

Figure 2-10 shows a self-scanning station. Other technological innovations are also influencing retail interactions. Here are three examples.

- Many retailers think they have the answer to the problem of finding the perfect gift—the electronic gift card. “They’re easy to use, cutting-edge enough to appeal to kids, and with a big advantage to retailers. If the recipient buys less than the full value of the gift, the balance stays on the card.” American retailer Neiman Marcus was the first retailer to issue gift cards (in 1994). But today “they’re as ubiquitous as credit cards and, for some retailers, as important a sales tool as incentive coupons.”²⁶



Figure 2-10 A Self-Checkout Station

This self-checkout, from Stores Automated Systems, Inc., is stationary. Shoppers scan goods across a scanner and place them into a bag on a scale. The weight of the bagged items is compared with the weight of the scanned items, ensuring that the shopper has scanned all items. A signature-capture device lets shoppers pay for purchases by credit or debit card without needing a cashier.

Reprinted by permission.

Neiman Marcus pioneered the electronic gift card (www.neimanmarcus.com).

TECHNOLOGY IN RETAILING

Speeding up Check-out Service

A focus group survey by Opinion Research Corp. International (www.opinionresearch.com) found that 33 percent of the consumers who were interviewed prefer a self-checkout over a cashier for simple checkout transactions. The consumers cite three major advantages of the self-checkout over traditional cashiers: shorter lines, increased speed, and privacy.

Fifty-six percent of consumers polled in the Opinion Research survey were confident that they could scan supermarket purchases as quickly as the cashier could. Shoppers who are moving through the self-checkout lane, even if they are going at a slower pace than a cashier in the next lane, may perceive that they are being served more quickly than if they were standing in line waiting their turn.

An NCR (www.ncr.com) spokesperson says that certain categories of merchandise also lend themselves better to self-checkout due to customers’ concern for privacy. For example, many consumers may feel more comfortable purchasing incontinence products through self-checkout stations than with cashiers.

Even if retailers have not moved to self-checkouts, they are still exploring ways to increase the speed of customer transactions. Popular Canadian retailers like Le Château, Holt Renfrew, and now YM Inc. (parent company of Stitches, Urban Planet, and Sirens) have implemented cash register software from NCR partner company Datavantage that can save both time and money.

Sources: “Time Flies When You’re Scanning for Fun: Is Self-Checkout the Next Retail Standard?” *Chain Store Age Executive*, February 2002, pp. 2C2–2C4; and Liz Clayton, “POS Lets Retailer’s Clients Shop Until They Drop”, *Computing Canada*, May 14, 2004.

- Interactive electronic kiosks (discussed further in Chapter 6) are gaining in use: “You arrive at an airport and use electronic check-ins to board the plane. You reach your destination, electronically access your rental car, and are on the road. Now, some hotels are betting they can speed up one of travelling’s great ordeals with check-in kiosks.”²⁷
- More retailers are using Web portals to exchange information with suppliers: “ChainDrugStore.net gives member retailers and suppliers quick access to each other. Created as a subsidiary of the National Association of Chain Drug Stores, the Web site boasts more than 110 retailers on its network, including supermarket chains like Safeway.”²⁸

ETHICAL PERFORMANCE AND RELATIONSHIPS IN RETAILING

Ethical challenges fall into three interconnected categories: *Ethics* relates to the retailer’s moral principles and values. *Social responsibility* involves acts benefiting society. *Consumerism* entails protecting consumer rights. “Good” behaviour depends not only on the retailer but also on the expectations of the community in which it does business.

Throughout this book, in “Ethics in Retailing” boxes and chapter discussions, we look at many ethical issues. Here we study the broader effects of ethics, social responsibility, and consumerism. Visit our Web site for links on retailers’ ethical challenges (www.pearsoned.ca/bermanevans).

Ethics

In dealing with their constituencies (customers, the general public, employees, suppliers, competitors, and others), retailers have a moral obligation to act ethically. Furthermore, due to the attention paid to firms’ behaviour and the high expectations people have today, a failure to be ethical may lead to adverse publicity, lawsuits, the loss of customers, and a lack of self-respect among employees.

When a retailer has a sense of **ethics**, it acts in a trustworthy, fair, honest, and respectful manner with each of its constituencies. Executives must articulate to employees and channel partners which kinds of behaviour are acceptable and which are not. The best way to avoid unethical acts is for firms to have written ethics codes, to distribute them to employees and channel partners, to monitor behaviour, and to punish poor behaviour—and for top managers to be highly ethical in their own conduct. See Figure 2-11.

Often society may deem certain behaviour to be unethical even if laws do not forbid it. Most observers would agree that such practices as these are unethical (and sometimes illegal, too):

- Raising prices on scarce products after a natural disaster such as a hurricane.
- Not having adequate stock when a sale is advertised.
- Charging high prices in low-income areas because consumers there do not have the transportation mobility to shop out of their neighbourhoods.
- Selling alcohol and tobacco products to children.
- Having a salesperson pose as a market researcher when engaged in telemarketing.
- Defaming competitors.
- Selling refurbished merchandise as new.
- Pressuring employees to push high-profit items to shoppers, even if these items are not the best products for them.
- Selling information from a customer database.

Many trade associations promote ethics codes to member firms. For example, the Direct Marketing Association has a code that it encourages members to use. Here are some of its provisions: *Article 1*: All offers should be clear, honest, and complete. *Article 5*: Disparagement of anyone on grounds of race, colour, religion, national origin, gender, marital status, or age is unacceptable. *Article 8*: All contacts should disclose the sponsor and the purpose of the

The Direct Marketing Association makes its complete ethics code available at its Web site (www.the-dma.org/library/guidelines/index.shtml).

contact; no one should make offers or solicitations in the guise of one purpose when the intent is another purpose. *Article 24:* Sweepstakes prizes should be advertised in a clear, honest, and complete way so the consumer may know the exact offer. *Article 27:* Merchandise should not be shipped without receiving customer permission. *Article 39:* A telemarketer should not knowingly call a consumer with an unlisted or unpublished phone number.²⁹

Social Responsibility

A retailer exhibiting **social responsibility** acts in the best interests of society—as well as itself. The challenge is to balance corporate citizenship with a fair level of profits for shareholders, management, and employees. Some forms of social responsibility are virtually cost-free, such as having employees participate in community events or disposing of waste products in a more careful way. Some are more costly, such as making donations to charitable groups or giving away goods and services to a school. Still others mean going above and beyond the letter of the law, such as having free loaner wheelchairs for persons with disabilities in addition to having legally mandated wheelchair accessibility to retail premises.

Most retailers know that socially responsible acts do not go unnoticed. Though the acts may not stimulate greater patronage for firms with weak strategies, they can be a customer inducement for those otherwise viewed as “me too” entities. It may also be possible to profit from good deeds. If a retailer donates excess inventory to a charity that cares for the ill, it can take a tax deduction equal to the cost of the goods. To do this, a retailer must be a corporation and the charity must use the goods and not sell or trade them.

This is what some retailers are doing. McDonald’s founded Ronald McDonald House so that families could stay at a low-cost facility instead of a costly hotel when their seriously ill children got medical treatment outside their community. Target Stores no longer sells cigarettes. At Wal-Mart, “We recognize the importance of preserving our natural resources whenever and wherever possible. That’s why we pursue environmentally sound business practices and get involved in local recycling and other environmental efforts.”³⁰

The conservation and environmental protection practices of Small Potatoes Urban Delivery (SPUD) have resulted in its being awarded a British Columbia Ethics in Action Award. SPUD delivers locally grown pesticide-free organic foods to consumers’ homes. SPUD is able to generally reduce greenhouse gas and chemical emissions by reducing weekly consumer trips to the grocery store and, because it sources locally, products travel an average of only 756 km. Since customers pre-order products, there is very little waste and any that does occur is composted. Products are delivered in reusable Rubbermaid bins and SPUD’s bin washing process uses recycled water heated sufficiently to eliminate the need for cleaning solutions.³¹

Mountain Equipment Co-op (www.mec.ca) requires all suppliers to sign a code of conduct stating that underage labour is not used. A number of retailers (including Starbucks and Ten Thousand Villages) have earned the label of “fair trade retailer” by ensuring that fair prices are paid to suppliers. Others—such as Hbc, Sears, and Wal-Mart—were already engaging in voluntary responsible trade when they requested that the Retail Council of Canada establish standard guidelines for Canadian retailers. The result was *Responsible Trading Guidelines*, which serve as benchmarks to our nation’s retailers.³² These guidelines can be viewed on the Web at http://www.retailcouncil.org/toolkit/essentials/responsible_trading_guidelines.pdf.



Figure 2-11 Small Potatoes Urban Delivery (SPUD) has a comprehensive social responsibility component (www.spud.ca).

Source: Small Potatoes Urban Delivery (SPUD).

The Ronald McDonald House program (www.ronald-mcdonald-house.com) is one of the most respected community outreach efforts in retailing.

Consumerism

Consumerism involves the activities of government, business, and other organizations to protect people from practices infringing upon their rights as consumers. These actions recognize that consumers have basic rights that should be safeguarded. The Consumers' Association of Canada (www.consumer.ca), an advocacy group for consumers that liaises with government and industry, has identified nine basic consumers' rights that it works to protect: the right to choice, the right to be informed, the right to safety, the right to be heard, the right to redress, the right to consumer education, the right to participate in marketplace decision making, the right to have access to basic services, and the right to a sustainable environment.

Retailers and their channel partners need to avoid business practices that violate these rights and to do all they can to understand and protect them, for reasons that include the following:

- Some retail practices are covered by legislation. One new law that affects all Canadian retailers collecting any customer information is the *Protection of Privacy and Electronic Documents Act* (PIPEDA), which includes, among other things, "rules to govern the collection, use and disclosure of personal information in a manner that recognizes the right of privacy of individuals with respect to their personal information and the need of organizations to collect, use or disclose personal information for purposes that a reasonable person would consider appropriate in the circumstances."³³ People are more apt to patronize firms perceived as customer oriented and trustworthy than to shop with ones seen as greedy or deceitful.
- Consumers are more knowledgeable, price-conscious, and selective than in the past.
- Large retailers may be viewed as indifferent to consumers. They may not provide enough personal attention for shoppers or may have inadequate control over employees.
- The use of self-service is increasing, and it can cause frustration for some shoppers.
- Innovative technology is unsettling to many consumers, who must learn new shopping behaviour (such as how to use electronic video kiosks).
- Retailers are in direct customer contact, so they are often blamed for and asked to resolve problems caused by manufacturers (such as defective products).

To avoid customer relations problems, many retailers have devised programs to protect consumer rights without waiting for government or consumer pressure to do so. British

ETHICS IN RETAILING

Better Business Bureau Seals: Helping to Reduce Online Problems

The Better Business Bureau (www.bbb.org) has developed both reliability and privacy seals for Web-based retailers. Currently, more than 11,000 Web sites display one or more of these seals. Although member firms agree to comply with a number of rules, the programs do not constitute legal enforcement. Thus, the Better Business Bureau's seals are a form of self-regulation.

A retailer can earn the reliability seal by joining the local Better Business Bureau office, agreeing to adhere to the Bureau's online business practices, and committing to participate in its dispute resolution program. To be eligible to join this program, a retailer must have been in business for at least one year; however, the retailer does not have to have had its Web operations for that long. The privacy seal signifies that a retailer will honour the customer's privacy concerns.

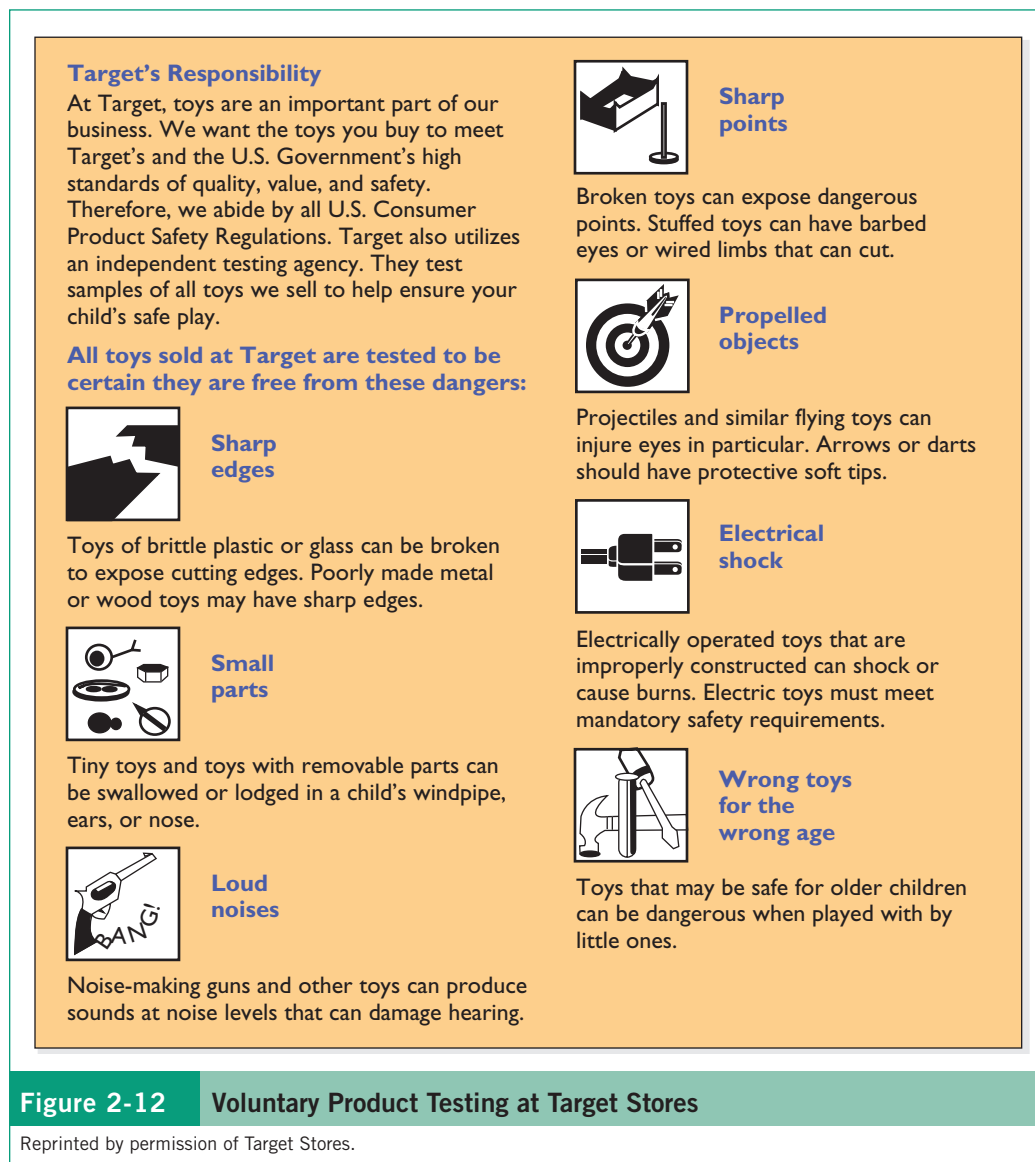
According to a spokesperson for the Council of Better Business Bureaus, the most common Web complaints involve return policies. For example, consumers sometimes incorrectly assume that they can return goods purchased on the Web to a nearby retail store or that the retailer will reimburse the consumer for return shipping and insurance costs. Another common complaint involves either late delivery or nondelivery of merchandise.

Source: "Better Business Bureau Seal Helps Resolve Online Trouble," *Knight Ridder/Tribune Business News*, May 2, 2002.

Columbia's pilot of the "Commitment to Parents" program (which has retailers voluntarily restricting the sale of video games to those individuals deemed old enough to view the content by the Entertainment Software Rating Board) provides a good example of such a practice. More can be read about this program in Chapter 11.

A number of retailers have enacted their own programs to test merchandise for such attributes as value, quality, misrepresentation of contents, safety, and durability. Sears, Wal-Mart, and A&P are just a few of those doing testing. United States-based Target stores provide a good example of such a comprehensive voluntary product testing system, as demonstrated in Figure 2-12. Among the other consumerism activities undertaken by many retailers are setting clear procedures for handling customer complaints, sponsoring consumer education programs, and training personnel to interact properly with customers.

Consumer-oriented activities are not limited to large chains; small firms can also be involved. A local toy store can separate toys by age group. A grocery store can set up displays featuring environmentally safe detergents. A neighbourhood restaurant can cook foods in non-hydrogenated vegetable oil. A sporting goods store can give a money-back guarantee on exercise equipment, so people can try it at home.



Summary

1. *To explain what “value” really means and highlight its pivotal role in retailers’ building and sustaining relationships.* Sellers undertake a series of activities and processes to provide a given level of value for the consumer. Consumers then perceive the value offered by sellers, based on the perceived benefits received versus the prices paid. Perceived value varies by type of shopper.

A retail value chain represents the total bundle of benefits offered by a channel of distribution. It comprises store location, ambience, customer service, the products/brands carried, product quality, the in-stock position, shipping, prices, the retailer’s image, and so forth. Some elements of a retail value chain are visible to shoppers. Others are not. An expected retail strategy represents the minimum value chain elements a given customer segment expects from a given retailer type. An augmented retail strategy includes the extra elements that differentiate retailers. A potential retail strategy includes value chain elements not yet perfected in the retailer’s industry category.

2. *To describe how both customer relationships and channel relationships may be nurtured in today’s highly competitive marketplace.* For relationship retailing to work, enduring relationships are needed with other channel members, as well as with customers. More retailers now realize that loyal customers are the backbone of their business.

In applying relationship retailing with consumers, these factors should be considered: the customer base, customer service, customer satisfaction, and loyalty programs and defection rates. In terms of the customer base, all customers are not equal. Some shoppers are more worth nurturing than others; they are a retailer’s core customers.

Customer service has two components: expected services and augmented services. The attributes of personnel who interact with customers, as well as the number and variety of customer services offered, have a big impact on the relationship created. Some firms have improved customer service by empowering personnel, giving them the authority to bend some rules. In devising a strategy, a retailer must make broad decisions and then enact specific tactics as to credit, delivery, and so forth.

Customer satisfaction occurs when the value and customer service provided in a retail experience meet or exceed expectations. Otherwise, the consumer will be dissatisfied.

Loyalty programs reward the best customers, those with whom a retailer wants to develop long-lasting relationships. To succeed, they must complement a sound value-driven retail strategy. By studying defections, a firm can learn how many customers it is losing and why they no longer patronize the store.

Members of a distribution channel jointly represent a value delivery system. Each one depends on the others, and every activity must be enumerated and responsibility as-

signed. Small retailers may have to use suppliers outside the normal channel to get the items they want and gain supplier support. A delivery system is as good as its weakest link. A relationship-oriented technique that some manufacturers and retailers (especially supermarket chains) are trying is category management.

3. *To examine the differences in relationship building between goods and service retailers.* Goods retailing focuses on selling tangible products. Service retailing involves transactions in which consumers do not purchase or acquire ownership of tangible products.

There are three kinds of service retailing: rented-goods services (in which consumers lease goods for a given time); owned-goods services (in which goods owned by consumers are repaired, improved, or maintained); and nongoods services (in which consumers experience personal services rather than possess them). Customer service refers to activities that are part of the total retail experience. With service retailing, services are sold to the consumer.

The unique features of service retailing that influence relationship building and retention are the intangible nature of many services, the inseparability of some service providers and their services, the perishability of many services, and the variability of many services.

4. *To discuss the impact of technology on relationships in retailing.* Technology is advantageous when it leads to an improved information flow between retailers and suppliers and between retailers and customers, and to faster, smoother transactions.

Electronic banking involves both the use of automated teller machines and the instant processing of retail purchases. It allows for centralized records and lets customers complete transactions 24 hours a day, seven days a week at various sites. Technology is also changing the nature of supplier/retailer/customer interactions via point-of-sale equipment, self-scanning, electronic gift cards, interactive kiosks, and other innovations.

5. *To consider the interplay between retailers’ ethical performance and relationships in retailing.* Retailer challenges fall into three related categories: (1) Ethics relates to a firm’s moral principles and values. (2) Social responsibility has to do with benefiting society. (3) Consumerism entails the protection of consumer rights. “Good” behaviour is based not only on the firm’s practices but also on the expectations of the community in which it does business.

Ethical retailers act in a trustworthy, fair, honest, and respectful way. Firms are more apt to avoid unethical behaviour if they have written ethics codes, communicate them to employees, monitor and punish poor behaviour, and have ethical executives. Retailers perform in a socially responsible manner when they act in the best interests of

society through recycling and conservation programs and other efforts. Consumerism activities involve government, business, and independent organizations. Four consumer

rights are basic: to safety, to be informed, to choose, and to be heard.

KEY TERMS

augmented customer service (p. 26)
 consumerism (p. 40)
 consumer loyalty (frequent shopper) programs (p. 30)
 core customers (p. 25)
 customer satisfaction (p. 29)
 electronic banking (p. 36)
 employee empowerment (p. 26)

ethics (p. 38)
 expected customer service (p. 26)
 goods retailing (p. 33)
 nongoods services (p. 34)
 open credit account (p. 29)
 option credit account (p. 29)
 owned-goods services (p. 33)
 rented-goods services (p. 33)

revolving credit account (p. 28)
 service retailing (p. 33)
 social responsibility (p. 39)
 value (p. 22)
 value chain (p. 22)
 value delivery system (p. 31)

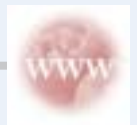
Questions for Discussion

1. When a consumer shops at an upscale apparel store, what factors determine whether the consumer feels that he or she got a fair value? How does the perception of value differ when that same consumer shops at a discount apparel store?
2. What are the expected and augmented value chain elements for each of these retailers?
 - a. Fast-food restaurant
 - b. Motel
 - c. Local pharmacy
3. Why should a retailer devote special attention to its core customers? How should it do so?
4. What is the connection between customer service and employee empowerment? Is employee empowerment always a good idea? Why or why not?
5. How would you measure the level of customer satisfaction with your school's bookstore?
6. Devise a consumer loyalty program for a national consumer electronics chain.
7. What are the unique aspects of service retailing? Give an example of each.
8. What are the pros and cons of ATMs? As a retailer, would you want an ATM in your store? Why or why not?
9. Will the time come when most consumer purchases are made with self-scanners? Explain your answer.
10. Describe three unethical, but legal, acts on the part of retailers that you have encountered. How have you reacted in each case?
11. Differentiate between social responsibility and consumerism from the perspective of a retailer.
12. How would you deal with consumers' concerns about privacy in their relationships with retailers?

Web-Based Exercise

Visit the Web site of Petcetera (www.petcetera.ca). Click on "Inside the Store" at the top of the page. Comment on the information you find there. Does Petcetera have customer-oriented policies? Explain your answer.

Note: Stop by our Web site (www.pearsoned.ca/bermanevans) to experience a number of highly interactive, appealing Web exercises based on actual company demonstrations and sample materials related to retailing.



Appendix 2A

Planning for the Unique Aspects of Service Retailing

We present this appendix because service retailing in Canada and around the world is growing steadily and represents a large portion of overall retailing. In Canada, consumers spend most of their after-tax income on such services as travel, recreation, personal care, education, medical care, and housing. Three-quarters of the labour force works in services. Consumers spend billions of dollars each year to rent such products as power tools and party goods (coffee urns, silverware, wine glasses, etc.). \$150 billion to maintain their cars. There are 27,500 personal care services, like beauty and barber shops, 6,400 laundry and cleaning outlets, and 9,600 hotels and motels, sports and recreation clubs. During the past 30 years, the prices of services have risen more than the prices of many goods. Because of technological advances, automation has substantially reduced manufacturing labour costs, but many services remain labour-intensive because of their personal nature.³⁴

Here we will look at the abilities required to be a successful service retailer, how to improve the performance of service retailers, and the strategies of recent National Quality Institute and Baldrige Award winner.

ABILITIES REQUIRED TO BE A SUCCESSFUL SERVICE RETAILER

The personal abilities required in service retailing are usually quite distinct from those in goods retailing:

- With service retailing, the major value provided to the customer is some type of retailer service, not the ownership of a physical product produced by a manufacturer.
- Specific skills are often required, and these skills may not be transferable from one type of service to another. TV repairpeople, beauticians, and accountants cannot easily change businesses or transfer skills. The owners of appliance stores, cosmetics stores, and toy stores (all goods retailers) would have an easier time than others in changing and transferring their skills to another area.
- More service operators must possess licences or certification to run their businesses. Barbers, real-estate brokers, dentists, attorneys, plumbers, and others must pass exams in their fields.
- Owners of service businesses must enjoy their jobs and have the aptitude for them. Because of the close personal contact with customers, these elements are essential and difficult to feign.

Many service retailers can operate on lower overall investments and succeed on lower yearly revenues than can goods retailers. A firm with four outdoor tennis courts can operate with one worker who functions as clerk/cashier and maintenance person. A tax-preparation firm can succeed with one accountant. A watch repair business needs one repairperson. In each case, the owner may be the only skilled worker. Costs can be held down accordingly. On the other hand, a goods retailer needs a good product assortment and inventory on hand, which may be costly and require storage facilities.

The time commitment of a service retailer differs by type of business opportunity. Some businesses, such as a self-service laundromat or a movie theatre, require a low time commitment. Other businesses, such as house painting or a travel agency, require a large time commitment because personal service is the key to profitability. More service retailers fall into the high rather than the low time-investment category.

IMPROVING THE PERFORMANCE OF SERVICE RETAILERS³⁵

Service tangibility can be increased by stressing service provider reliability, promoting a continuous slogan (the Hertz #1 Club), describing specific results (a car tune-up's improving gas

consumption by a quarter of mile per litre), and offering warranties (hotels giving automatic refunds to unhappy guests). Most airlines have Web sites where customers can select flights and make their reservations interactively. These sites are a tangible representation of the airlines and their logos.

Demand and supply can be better matched by offering similar services to market segments with different demand patterns (Vancouver tourists versus residents), new services with demand patterns that are countercyclical from existing services (cross-country skiing during the winter at Toronto golf resorts), new services that complement existing ones (beauty salons adding tanning booths), special deals during nonpeak times (midweek movie theatre prices), and new services not subject to existing capacity constraints (a 10-table restaurant starting a home catering service).

Standardizing services reduces their variability, makes it easier to set prices, and improves efficiency. Services can be standardized by clearly defining each of the tasks involved, determining the minimum and maximum times needed to complete each task, selecting the best order in which to do tasks, and noting the optimum time and quality of the entire service. Standardization has been successfully applied to such firms as quick auto service providers (oil change and tune-up firms), legal services (for house closings and similar proceedings), and emergency medical care centres. If services are standardized, there is often a trade-off (e.g., more consistent quality and convenience in exchange for less of a personal touch).

Besides standardizing services, retailers may be able to make services more efficient by automating them and substituting machinery for labour. Thus, attorneys often use computerized word-processing templates for common paragraphs in wills and house closings. This means more consistency in the way documents look, time savings, and neater documents with fewer errors. Among the service firms that automate at least part of their operations are banks, car washes, bowling alleys, airlines, phone services, real-estate brokers, and hotels.

The location of a service retailer must be carefully considered. Sometimes, as with TV repairs, house painting, and lawn care, the service is “delivered” to the customer. The client’s home becomes the firm’s location, and the actual retail office is rather insignificant. Many clients might never even see a service firm’s office; they make contact by phone or personal visits, and customer convenience is optimized. The firm incurs travel expenses, but it also has low (or no) rent and does not have to maintain store facilities, set up displays, and so on. Other service retailers are visited on “specific-intent” shopping trips. Although a customer may be concerned about the convenience of a service location, he or she usually does not select a skilled practitioner such as a doctor or a lawyer based on the location. It is common for doctors and attorneys to have offices in their homes or near hospitals or court buildings. A small store can often be used because little or no room is needed for displaying merchandise. A travel agency may have six salespeople and book millions of dollars in trips, but fit into a 500-square-foot store.

To improve their pricing decisions, service retailers can apply these principles to “capture and communicate value through their pricing.”³⁶ Satisfaction-based pricing recognizes and reduces customer perceptions of uncertainty that service intangibility magnifies. It involves service guarantees, benefit-driven pricing, and flat-rate pricing. Relationship pricing encourages long-term relationships with valuable customers. It entails long-term contracts and price bundling. Efficiency pricing shares cost savings with customers that arise from the firm’s efficiently executing service tasks. It is related to the concept of cost leadership.

Negotiated pricing occurs when a retailer works out pricing arrangements with individual customers because a unique or complex service is involved and a one-time price must be agreed on. Unlike traditional pricing (whereby each consumer pays the same price for a standard service), each consumer may pay a different price under negotiated pricing (depending on the nature of the unique service). A moving company charges different fees, depending on the distance of the move, who packs the breakable furniture, the use of stairs versus an elevator, access to highways, and the weight of the furniture.

Contingency pricing is an arrangement whereby the retailer does not get paid until after the service is performed and payment is contingent on the service’s being satisfactory. A real-estate broker earns a fee only when a house purchaser (who is ready, willing, and able to buy) is presented to the house seller. Several brokers may show a house to prospective

buyers, but only the broker who actually sells the house earns a commission. This technique presents risks to a retailer because considerable time and effort may be spent without payment. A broker may show a house 25 times but not sell it, and, therefore, not be paid.

One customer type is often beyond the reach of some service firms: the do-it-yourselfer. And the number of do-it-yourselfers in North America is growing, as service costs increase. The do-it-yourselfer does a car tune-up, paints the house, mows the lawn, makes all vacation plans, and/or sets up a darkroom for developing film. Goods-oriented discount retailers do well by selling supplies to these people, but service retailers suffer because the labour is done by the customer.

Figure A2-1 highlights ten lessons that service retailers can learn from the best in the business, such as Walt Disney Company, Marriott International, Delta Hotels, and West Jet Airlines.

THE STRATEGIES OF RECENT BALDRIGE AND NQI AWARD WINNER³⁷

Both Canada and the United States have organizations and awards that promote excellence. In Canada the organization is the National Quality Institute (NQI). In the United States the Baldrige Award is given by the president of the United States to businesses—manufacturing and service, small and large—and to education and health care organizations that apply and are judged to be outstanding in seven areas: leadership, strategic planning, customer and market focus, information and analysis, human resource focus, process management, and business results. One of the few retailers to win this award is Pal's Sudden Service, a privately owned, quick-service restaurant chain with 19 locations, all within 100 kilometres of Kingsport, Tennessee. The firm distinguishes itself by offering competitively priced food of consistently high quality, delivered rapidly, cheerfully, and without error.

Hop over to Pal's Sudden Service (www.palsweb.com). See why it's a big winner!

For everything organizational and operational, Pal's has a process. Its Business Excellence Process is the key integrating element, an approach to ensuring that customer requirements are met in each transaction. Carried out under the leadership of Pal's two top executives and its 19 store operators, the Business Excellence Process spans all facets of operations from strategic planning (done annually) to online quality control.

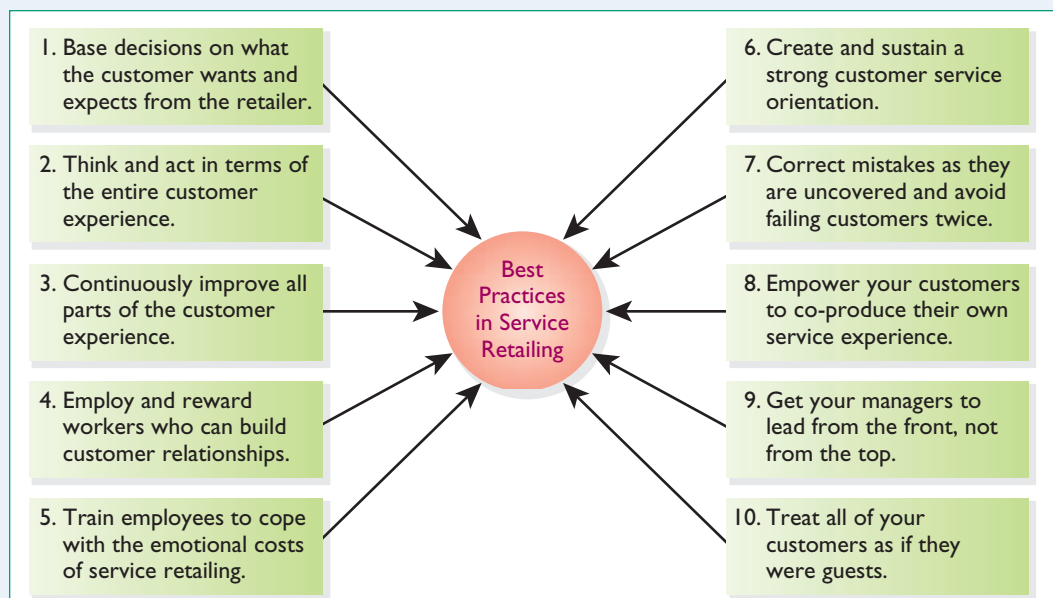


Figure A2-1 Lessons in Service Retailing From the Best Firms

Source: Figure developed by the authors based on information in Robert C. Ford, Cherrill P. Heaton, and Stephen W. Brown, "Delivering Excellent Service: Lessons From the Best Firms," *California Management Review*, Vol. 44, Fall 2001, pp. 39–56.

Pal's goal is to provide the "quickest, friendliest, most accurate service available." Achieving this is a challenge in an industry with annual employee turnover rates of more than 200 percent. The company's success in reducing turnover among frontline production and service personnel, most of whom are between the ages of 16 and 32, has become a key advantage. Operators and assistant managers have primary responsibility for training based on a four-step model: show, do it, evaluate, and perform again. Employees must demonstrate 100 percent competence before they can work at a specific job task.

Pal's order handout speed has improved more than 30 percent since 1995, decreasing from 31 seconds to 20 seconds, almost four times faster than its top competitor. Errors in orders are rare, averaging less than 1 for every 2,000 transactions. The company aims to reduce its error rate to 1 in every 5,000 transactions. In addition, Pal's has consistently received the highest health inspection scores in its market and in the entire state of Tennessee.

Here in Canada, Delta Hotels was recently honoured with NQI's Healthy Workplace Gold Trophy (2004). The Delta is also the only hotel company to receive the Canada Award of Excellence (Quality Trophy), which it won in 2000. This award recognizes organizational excellence in the areas of leadership; performance; planning; and customer-, people-, and supplier-focused operations. Voted one of the "50 Best Companies to Work for in Canada" by the *Globe and Mail Report on Business* for three consecutive years-2000, 2001, and 2002-the Delta has worked very hard at making the employee-driven service element of their value proposition a source of sustainable competitive advantage.

Employee-driven excellence has allowed the Delta to claim a number of industry firsts. These include family programs, children's creative centres, and the Delta Privilege (for frequent guests) with its now famous "One Minute Check-In Guarantee." Failure to deliver on the one minute check-in means the guest gets the first night of his or her stay free.

Chapter 3

Strategic Planning in Retailing



Reprinted by permission.

Lingerie has seen dramatic sales increases on both sides of the border over the past years despite very little increase in population. Victoria's Secret and La Senza are synonymous with lingerie and have the enviable position of being clothing brands as well as retail store brands.

Leslie Wexner, owner of Victoria's Secret (and a number of other major retail brands such as The Limited), was one of the first retailing executives to understand the importance of developing a network of foreign suppliers that could manufacture goods at low cost and at blazing speed. This enabled his stores to rapidly respond to hot fashion trends without the risks associated with large inventories. Wexner is also known for creatively positioning retail stores by using timely fashions, distinctive store design, and powerful advertising. For example, after one acquisition, he immediately placed more

emphasis on fashion. As a result, sales per store grew about 20 percent per year.

Irv Teitelbaum, co-founder of Canadian-based La Senza, saw the success Wexner was having in the United States and thought he could fill a similar niche here. Rather than simply copying Wexner, La Senza has taken what some consider to be a distinctly Canadian approach: sexy but practical, fashionable but still affordable. Management has tried to position La Senza as a company that can walk the thin line between what they see as a man's view of lingerie—racy and exotic—and a woman's view—attractive but still comfortable. They've used mass merchandising know-how to sell private label lingerie in a boutique setting with manufacturing outsourced. Today, La Senza is the leading specialty retailer in Canada.¹

Chapter Objectives

1. To show the value of strategic planning for all types of retailers
2. To explain the steps in strategic planning for retailers
3. To examine the individual controllable and uncontrollable elements of a retail strategy
4. To present strategic planning as a series of integrated steps

Overview

In this chapter, we cover strategic retail planning—the underpinning of our book—in detail. As we noted in Chapter 1, a **retail strategy** is the overall plan or framework of action that guides a retailer. Ideally, it will be at

least one year in duration and outline the mission, goals, consumer market, overall and specific activities, and control mechanisms of the retailer. Without a defined and well-integrated strategy, a firm can flounder and be unable to cope with the marketplace: “Ask people who advise small business owners about the biggest mistakes their clients make and they come up with a variety of answers—but they all have a common thread: a lack of planning or thinking in advance.”²

The process of strategic retail planning has several attractive features:

- It provides a thorough analysis of the requirements for doing business for different types of retailers.
- It outlines retailer goals.
- A firm determines how to differentiate itself from competitors and develop an offering that appeals to a group of customers.
- The legal, economic, and competitive environment is studied.
- A firm's total efforts are coordinated.
- Crises are anticipated and often avoided.

Strategic planning can be done by the owner of a firm, professional management, or a combination of the two. Even among family businesses, the majority of high-growth companies have strategic plans.

The steps in planning and enacting a retail strategy are interdependent; a firm often starts with a general plan that gets more specific as options and payoffs become clearer. In this chapter, we cover each step in developing a retail strategy, as shown in Figure 3-1. Given the importance of global retailing, Appendix 3A explores the special dimensions of strategic

Industry Canada's Web site, “Strategis for Retailers,” has very useful information for retailers (www.strategis.ic.gc.ca). Also take a look at www.retailinteractive.ca for information co-sponsored by the Retail Council of Canada.

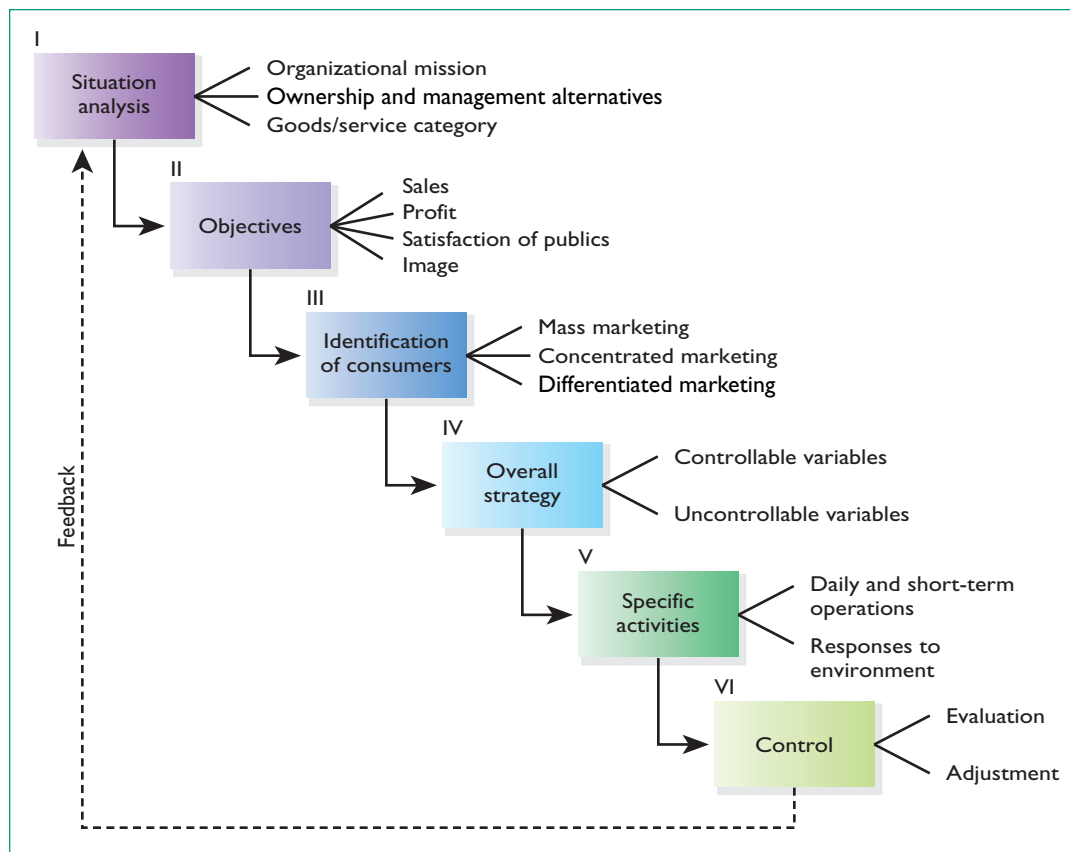


FIGURE 3-1 Elements of a Retail Strategy

planning in a global retailing environment. Visit our Web site (www.pearsoned.ca/bermanevans) for several links on strategic planning.

Please note: An in-depth user-friendly strategic planning template, *Computer-Assisted Strategic Retail Management Planning*, appears on our Web site (www.pearsoned.ca/bermanevans). This template uses a series of drop-down menus based on Figure 3-1. A sample plan is provided. As a planning exercise, you may be asked to apply the template to one of the seven retail business scenarios that are provided—or to another scenario. You have the option of printing each facet of the planning process individually or printing the entire plan as an integrated whole.

SITUATION ANALYSIS

Situation analysis is a candid evaluation of the opportunities and threats facing a prospective or existing retailer. It seeks to answer two general questions: (1) What is the firm's current status? (2) In which direction should it be heading? Situation analysis means being guided by an organizational mission, evaluating ownership and management options, and outlining the goods/service category to be sold.

A good strategy anticipates and adapts to both the opportunities and threats in the changing business environment. **Opportunities** are marketplace openings that exist because other retailers have not yet capitalized on them. Ikea does well because it is the pioneer firm in offering a huge selection of furniture at discount prices. **Threats** are environmental and marketplace factors that can adversely affect retailers if they do not react to them (and, sometimes, even if they do). Single-screen movie theatres have virtually disappeared in most areas because they have been unable to fend off the inroads made by multiscreen theatres.

A firm needs to spot trends early enough to satisfy customers and stay ahead of competitors, yet not so early that shoppers are not ready for changes or that false trends are perceived. Merchandising shifts—like stocking popular fad items—are more quickly enacted than are adjustments in a firm's overall location, price, or promotion strategy. A new retailer can adapt to trends more easily than can existing firms with established images, ongoing leases, and space limitations. Small firms that prepare well can compete in a market with large retailers.

During situation analysis, especially for a new retailer or one thinking about making a major strategic change, an honest, in-depth self-assessment is vital. It is all right for a person or company to be ambitious and aggressive, but overestimating one's abilities and prospects may be harmful—if the results are entry into the wrong retail business, inadequate resources, or misjudgment of competitors.

Organizational Mission

An **organizational mission** is a retailer's commitment to a type of business and to a distinctive role in the marketplace. It is reflected in the firm's attitude toward consumers, employees, suppliers, competitors, government, and others. A clear mission lets a firm gain a customer following and distinguish itself from competitors. See Figure 3-2.

One major decision is whether to base a business around the goods and services sold or around consumer needs. A person opening a hardware business must decide if, in addition to hardware products, a line of bathroom vanities should be stocked. A traditionalist might not carry vanities because they seem unconnected to the proposed business. But if the store is to be a do-it-yourself home improvement centre, vanities are a logical part of the mix. That store would carry any relevant items the consumer wants.



Figure 3-2 The Focused Organizational Mission of Wendy's

Wendy's, which owns Tim Hortons, operates two very successful and complementary restaurant chains. As noted in its mission statement, Tim Hortons has been very adept at leveraging key supplier relationships (especially with Nestlé) to deliver a constant stream of innovative products. Wendy's strategic plan is short and to the point: "Our guiding mission is to deliver superior quality products and services for our customers and communities through leadership, innovation, and partnerships. Our vision is to be the quality leader in everything we do."

Source: Wendy's annual report, 2003, photo: Richard Buchan/CP Photo Archive.

A second major decision is whether a retailer wants a place in the market as a leader or a follower. It could seek to offer a unique strategy, such as Taco Bell's becoming the first national quick-serve Mexican food chain. Or it could emulate the practices of competitors but do a better job in executing them, such as in a local fast-food Mexican restaurant's offering five-minute guaranteed service and a cleanliness pledge.

A third basic decision involves market scope. Large chains often seek a broad customer base (due to their resources and recognition). It is usually best for small retailers and start-ups to focus on a narrower customer base, so they can compete with bigger firms that tend not to adapt strategies as well to local markets.

Although the development of an organizational mission is the first step in the planning process, the mission should be continually reviewed and adjusted to reflect changing company goals and a dynamic retail environment.

In the first annual survey of Canada's best-managed brands, Tim Hortons was the runaway winner, with more than 42 percent of respondents saying that it was Canada's best-managed brand (only brands created in Canada were eligible). According to the respondents, Tim's excelled at

- Strong customer service
- Popular products
- Prolific community involvement
- Lots of retail locations
- Excellent execution in delivering products
- Consistent delivery of its value proposition

Other notable retail brands from companies with equally focused strategies were Loblaws, Roots, and Shoppers Drug Mart.³

By focusing on quick-serve Mexican food, available at convenient locations, Taco Bell (www.tacobell.com) has become the leading retailer in its category.

Ownership and Management Alternatives

An essential aspect of situation analysis is assessing ownership and management alternatives, including whether to form a sole proprietorship, partnership, or corporation—and whether to start a new business, buy an existing business, or become a franchisee.⁴ Management options include owner–manager versus professional manager and centralized versus decentralized structures. As two experts noted, “Customers may not notice if a firm is

CAREERS IN RETAILING

What Does It Take for a Successful Retail Career?

An executive recruiter with 28 years of experience working with retail executives says that today's successful retail executives need an expanded skill set that understands the modern global business environment. Why? Twenty years ago, a retail buyer was primarily responsible for the selection of merchandise, in-store marketing, and the handling of reorders. Now the buyer has become a “category manager” with the added responsibilities of obtaining deliveries on time and reacting to the changing value of the dollar in international markets. In addition, merchandise lines are often more complex than in the past.

To be successful, a retailing executive needs to be knowledgeable in such areas as merchandising, logistics, operations, and finance. According to the executive recruiter, “success is achieved by recognizing that mastering one area of the business is not enough. Today's successful retail executive is not one-dimensional.”

A retail executive with a diverse background better understands the overall environment facing his or her firm, as well as what it takes to be successful in the current competitive and economic market. This broad-based background can be obtained through education (both degree and continuing education programs) and experience (with different retailers and in different functional areas of the firm).

Source: Eric Segal, “Successful Retail Career Requires Multitude of Skills,” *Retail Merchandiser*, June 2001, p. 34.

a sole proprietorship, a partnership, or a corporation. The form chosen, though, can make a difference when it's time to pay taxes, respond to a lawsuit, or split up the business.”⁵

A **sole proprietorship** is an unincorporated retail firm owned by one person. All benefits, profits, risks, and costs accrue to that individual. It is simple to form, fully controlled by the owner, operationally flexible, easy to dissolve, and subject to single taxation by the government. It makes the owner personally liable for legal claims from suppliers, creditors, and others; and it can lead to limited capital and expertise.

A **partnership** is an unincorporated retail firm owned by two or more persons, each with a financial interest. Partners share benefits, profits, risks, and costs. Responsibility and expertise are divided among multiple principals, there is a greater capability for raising funds than with a proprietorship, the format is simpler to form than a corporation, and it is subject to single taxation by the government. Depending on the type of partnership, it, too, can make owners personally liable for legal claims, can be dissolved due to a partner's death or a disagreement, binds all partners to actions made by any individual partner acting on behalf of the firm, and usually has less ability to raise capital than does a corporation.

A **corporation** is a retail firm that is formally incorporated under provincial or territorial law. It is a legal entity apart from individual officers (or shareholders). Funds can be raised through the sale of stock, legal claims against individuals are not usually allowed, ownership transfer is relatively easy, the firm is assured of long-term existence (if a founder leaves, retires, or dies), the use of professional managers is encouraged, and unambiguous operating authority is outlined. Depending on the type of corporation, it is subject to double taxation (company earnings and shareholder dividends), faces more government rules, can require a complex process when established, may be viewed as impersonal, and may separate ownership from management. A closed corporation is run by a limited number of persons who control ownership; shares of stock are not available to the public. In an open corporation, shares of stock are widely traded and available to the public.

According to our best estimates, sole proprietorships account for the majority of retail firms in Canada. The story is reversed when it comes to sales, however. Corporations, especially chains, account for the overwhelming amount of sales.

Starting a new business—being entrepreneurial—offers a retailer flexibility in location, operating style, product lines, customer markets, and other factors; and a strategy is fully tailored to the owner's desires and strengths. There may be high construction costs, a time lag until the business is opened and then until profits are earned, beginning with an unknown name, and having to form supplier relationships and amass an inventory of goods. Figure 3-3 presents a checklist of items to consider when starting a business.

Buying an existing business allows a retailer to acquire an established company name, a customer following, a good location, trained personnel, and facilities; to operate immediately; to generate ongoing sales and profits; and possibly to get good lease terms or financing (at favourable interest rates) from the seller. Fixtures may be older, there is less flexibility in enacting a strategy tailored to the new owner's desires and strengths, and the growth potential of the business may be limited. Figure 3-4 (on page 54) shows a checklist to consider when purchasing an existing retail business.

By being a franchisee, a retailer can combine independent ownership with franchisor support: strategic planning assistance; a known company name and loyal customer following; cooperative advertising and buying; and a regional, national, or global (rather than local) image. However, a franchisee contract may specify rigid operating standards, limit the product lines sold, and restrict supplier choice; the franchisor company is usually paid continuously (royalties); advertising fees may be required; and there is a possibility of termination by the franchisor if the agreement is not followed satisfactorily.

Strategically, the management format also has a dramatic impact. With an owner–manager, planning tends to be less formal and more intuitive, and many tasks are reserved for that person (such as employee supervision and cash management). With professional management, planning tends to be more formal and systematic. Yet, professional managers are more constrained in their authority than is an owner–manager. In a centralized structure, planning clout lies with top management or ownership; managers in individual departments have major input into decisions with a decentralized structure.

Name of Business _____

A. Self-Assessment and Business Choice

- ✓ Evaluate your strengths and weaknesses.
- ✓ Commitment paragraph: Why should you be in business for yourself? Why open a new business rather than acquire an existing one or become a member of a franchise chain?
- ✓ Describe the type of retail business that fits your strengths and desires. What will make it unique? What will the business offer customers? How will you capitalize on the weaknesses of competitors?

B. Overall Retail Plan

- ✓ State your philosophy of business.
- ✓ Choose an ownership form (sole proprietorship, partnership, or corporation).
- ✓ State your long- and short-run goals.
- ✓ Analyze your customers from their point of view.
- ✓ Research your market size and store location.
- ✓ Quantify the total retail sales of your goods/service category in your trading area.
- ✓ Analyze your competition.
- ✓ Quantify your potential market share.
- ✓ Develop your retail strategy: store location and operations, merchandising, pricing, and store image and promotion.

C. Financial Plan

- ✓ What level of funds will you need to get started and to get through the first year? Where will the money come from?
- ✓ Determine the first-year profit, return on investment, and salary that you need/want.
- ✓ Project monthly cash flow and profit-and-loss statements for the first two years.
- ✓ What sales will be needed to break even during the first year? What will you do if these sales are not reached?

D. Organizational Details Plan

- ✓ Describe your personnel plan (hats to wear), organizational plan, and policies.
- ✓ List the jobs you like and want to do and those you dislike, cannot do, or do not want to do.
- ✓ Outline your accounting and inventory systems.
- ✓ Note your insurance plans.
- ✓ Specify how day-to-day operations would be conducted for each aspect of your strategy.
- ✓ Review the risks you face and how you plan to cope with them.

Figure 3-3 A Checklist to Consider When Starting a New Retail Business

Source: Adapted by the authors from *Small Business Management Training Instructor's Guide*, No. 109 (Washington, D.C.: U.S. Small Business Administration, n.d.).

A comprehensive discussion of independent retailers, chains, franchises, leased departments, vertical marketing systems, and consumer cooperatives is included in Chapter 4.

Goods/Service Category

Before a prospective retail firm can fully design a strategic plan, it selects a **goods/service category**—the line of business—in which to operate. Figure 3-5 shows the diversity of goods/service categories. Chapter 5 examines the attributes of food-based and general merchandise store retailers. Chapter 6 focuses on Web, nonstore, and other forms of nontraditional retailing.

It is advisable to specify both a general goods/service category and a niche within that category. Jaguar dealers are luxury auto retailers catering to upscale customers. Wendy's is an eating and drinking chain known for its quality fast food with a menu that emphasizes hamburgers. Motel 6 is a chain whose forte is inexpensive rooms with few frills.

A potential retail business owner should select a type of business that will allow him or her to match personal abilities, financial resources, and time availability with the requirements

Entrepreneur Magazine (www.entrepreneurmag.com) addresses many of the issues facing new and growing firms as they plan their strategies.

NAME OF BUSINESS _____

- ✓ Why is the seller putting the business up for sale?
- ✓ How much are you paying for goodwill (the cost of the business above its tangible asset value)?
- ✓ Have sales, inventory levels, and profit figures been confirmed by your accountant?
- ✓ Will the seller introduce you to his or her customers and stay on during the transition period?
- ✓ Will the seller sign a statement that he or she will not open a directly competing business in the same trading area for a reasonable time period?
- ✓ If sales are seasonal, are you purchasing the business at the right time of the year?
- ✓ In the purchase of the business, are you assuming the existing debts of the seller?
- ✓ Who receives proceeds from transactions made prior to the sale of the business but not yet paid by customers?
- ✓ What is the length of the lease if the property is rented?
- ✓ If property is to be purchased along with the business, has it been inspected by a professional engineer?
- ✓ How modern are the storefront and store fixtures?
- ✓ Is inventory fresh? Does it contain a full merchandise assortment?
- ✓ Are the advertising policy, customer service policy, and pricing policy of the past owner similar to yours? Can you continue old policies?
- ✓ If the business is to be part of a chain, is the new unit compatible with existing units?
- ✓ How much trading area overlap is there with existing stores?
- ✓ Has a lawyer examined the proposed contract?
- ✓ What effect will owning this business have on your lifestyle and on your family relationships?

Figure 3-4 A Checklist for Purchasing an Existing Retail Business

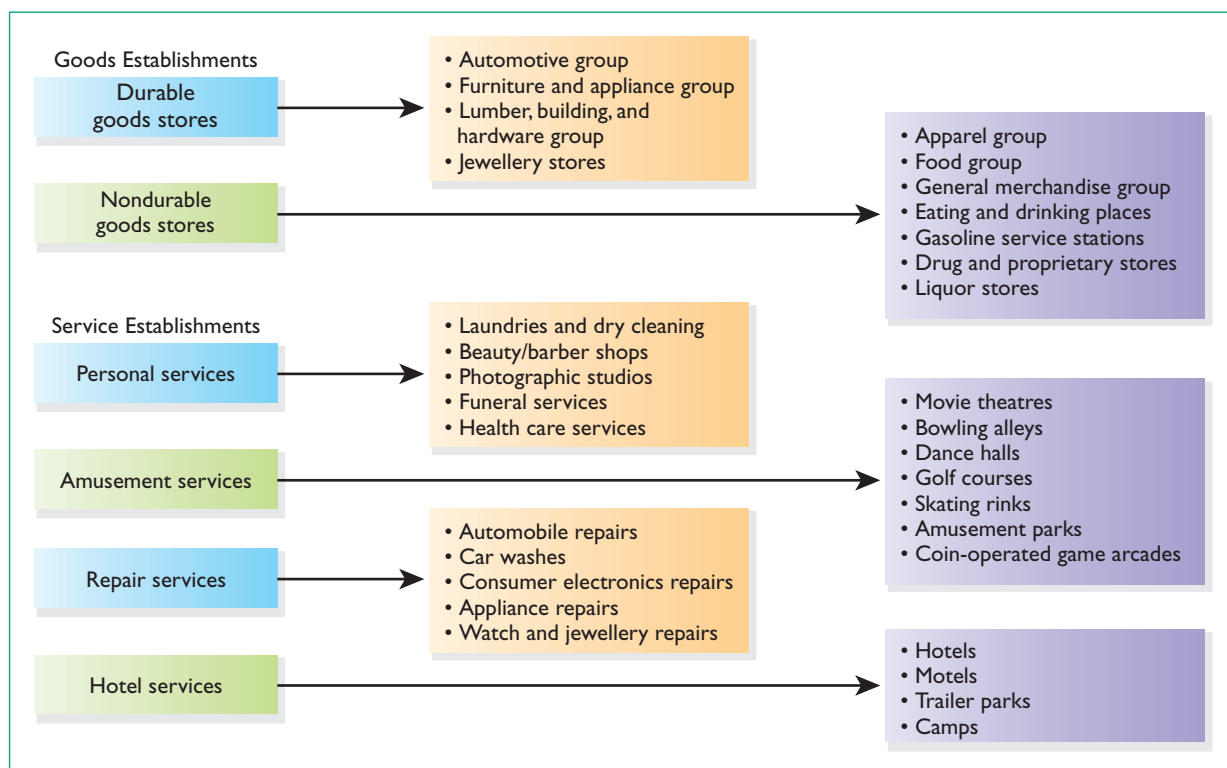


Figure 3-5 Selected Kinds of Retail Goods and Service Establishments

of that kind of business. Visit our Web site (www.pearsoned.ca/bermanevans) for links to many retail trade associations, which represent various goods/service categories.

Personal Abilities

Personal abilities depend on an individual's aptitude—the preference for a type of business and the potential to do well; education—formal learning about retail practices and policies; and experience—practical learning about retail practices and policies.

An individual who wants to run a business, likes to use initiative, and has the ability to react quickly to competitive developments will be suited to a different type of situation than will a person who depends on others for advice and does not like to make decisions. The first individual could be an independent operator in a dynamic business, such as apparel; the second might seek partners or a franchise and a stable business, such as a stationery store. Some people enjoy customer interaction; they would dislike the impersonality of a self-service operation. Others enjoy the impersonality of mail-order or Web retailing.

In certain fields, education and experience requirements are specified by law. Stockbrokers, real-estate brokers, beauticians, pharmacists, and opticians must all satisfy educational or experience standards to show competency. For example, real-estate brokers are licensed after a review of their knowledge of real-estate practices and their ethical character. The designation “broker” does not depend on the ability to sell or have a customer-oriented demeanour.

Some skills can be learned; others are inborn. Accordingly, potential retail owners have to assess their skills and match them with the demands of a given business. This involves careful reflection about oneself. Partnerships may be best when two or more parties possess complementary skills. A person with selling experience may join with someone who has the operating skills to start a retail business. Each partner has valued skills, but each may be unable to operate a retail entity without the expertise of the other.

Financial Resources

Many retail enterprises—especially new, independent ones—fail because the owners do not adequately project the financial resources needed to open and operate the firm. Table 3-1 outlines some of the typical investments for a new retail venture.

Novice retailers tend to underestimate the value of a personal drawing account, which is used for the living expenses of the owner and his or her family in the early, unprofitable stage of a business. Because few new ventures are immediately profitable, the budget must include such expenditures. In addition, the costs of renovating an existing facility often are miscalculated. Underfunded firms usually invest in only essential renovations. This practice reduces

TABLE 3-1 Some Typical Financial Investments for a New Retail Venture

Use of Funds	Source of Funds
Land and building (lease or purchase)	Personal savings, bank loan, commercial finance company
Inventory	Personal savings, manufacturer credit, commercial finance company, sales revenues
Fixtures (display cases, storage facilities, signs, lighting, carpeting, etc.)	Personal savings, manufacturer credit, bank loan, commercial finance company
Equipment (cash register, marking machine, office equipment, computers, etc.)	Personal savings, manufacturer credit, bank loan, commercial finance company
Personnel (salespeople, cashiers, stockpeople, etc.)	Personal savings, bank loan, sales revenues
Promotion	Personal savings, sales revenues
Personal drawing account	Personal savings, life insurance loan
Miscellaneous (equipment repair, credit sales [bad debts], professional services, repayment of loans)	Personal savings, manufacturer and wholesaler credit, bank credit plan, bank loan, commercial finance company

Note: Collateral for a bank loan may be a building, fixtures, land, inventory, or a personal residence.

VanCity Credit Union (www.vancity.com) offers financial support and advice to small firms.

the initial investment, but it may give the retailer a poor image. Merchandise assortment, as well as the types of goods and services sold, also affects the financial outlay. Finally, the use of a partnership, corporation, or franchise agreement will affect the investment.

Table 3-2 illustrates the financial requirements for a hypothetical used-car dealer. The initial personal savings investment of \$300,000 would force many potential owners to rethink the choice of product category and the format of the firm. First, the plans for a 32-car inventory reflect this owner's desire for a balanced product line. If the firm concentrates on subcompact, compact, and intermediate cars, it can reduce inventory size and lower the investment. Second, the initial investment can be reduced by seeking a location whose facilities do not have to be modified. Third, fewer financial resources are needed if a partnership or corporation is set up with other individuals, so that costs—and profits—are shared.

The Canadian federal government (www.businessgateway.ca) assists businesses by helping companies during start-up, guaranteeing loans, and helping with importing and exporting, as well as the numerous other issues that are critical to retail entrepreneurs. Many private firms have also started to target small businesses. Besides financial institutions like the credit unions, companies like Wal-Mart are very active. Sam's Clubs believes that small business owners are its lifeblood. Among other things, businesses get Gold Key Hours, which allow them to get into the store at 7:00 A.M. so that they can get what they need before they open their own shops. The Linerusher program pre-scans merchandise before checkout, and the stores have business member-only loading zones and next-day pick-up.

Time Demands

Time demands on retail owners (or managers) differ significantly by goods or service category. They are influenced both by consumer shopping patterns and by the ability of the owner or manager to automate operations or delegate activities to others.

Many retailers must have regular weekend and evening hours to serve time-pressed shoppers. Gift shops, toy stores, and others have extreme seasonal shifts in their hours. Mail-order firms and those selling through the Web, which can process orders during any part of the day, have more flexible hours.

TABLE 3-2 Financial Requirements for a Used-Car Dealer

Total investments (first year)	
Lease (10 years, \$60,000 per year)	\$ 60,000
Beginning inventory (32 cars, average cost of \$12,500)	400,000
Replacement inventory (32 cars, average cost of \$12,500) ^a	400,000
Fixtures and equipment (painting, panelling, carpeting, lighting, signs, heating and air-conditioning system, electronic cash register, service bay)	60,000
Replacement parts	75,000
Personnel (one mechanic)	45,000
Promotion (brochures and newspaper advertising)	35,000
Drawing account (to cover owner's personal expenses for one year; all selling and operating functions except mechanical ones performed by the owner)	40,000
Accountant	15,000
Miscellaneous (loan payments, etc.)	100,000
Profit (projected)	<u>40,000</u>
	\$1,270,000
Source of funds	
Personal savings	\$ 300,000
Bank loan	426,000
Sales revenues (based on expected sales of 32 cars, average price of \$17,000)	<u>544,000</u>
	\$1,270,000

^aAssumes that 32 cars are sold during the year. As each type of car is sold, a replacement is bought by the dealer and placed in inventory. At the end of the year, inventory on hand remains at 32 units.

Some businesses require less owner involvement, including gas stations with no repair services, coin-operated laundries, and movie theatres. The emphasis on automation, self-service, standardization, and financial controls lets the owner reduce the time investment. Other businesses, such as hair salons, restaurants, and jewellery stores, require more active owner involvement.

Intensive owner participation can be the result of several factors:

- The owner may be the key service provider, with patrons attracted by his or her skills (the major competitive advantage). Delegating work to others will lessen consumer loyalty.
- Personal services are not easy to automate.
- Due to limited funds, the owner and his or her family must often undertake all operating functions for a small retail firm. Spouses and children work in 40 percent of family-owned businesses.
- In a business that operates on a cash basis, the owner must be around to avoid being cheated.

Off-hours activities are often essential. At a restaurant, some foods must be prepared in advance of the posted dining hours. An antique dealer spends nonstore hours hunting for goods. An owner of a small computer store cleans, stocks shelves, and does the books during the hours the firm is closed. A prospective retail owner also has to examine his or her time preferences regarding stability versus seasonality, ideal working hours, and personal involvement.

OBJECTIVES

After situation analysis, a retailer sets **objectives**, the long-run and short-run performance targets it hopes to attain. This helps mould a strategy and translates the organizational mission into action. A firm can pursue goals related to one or more of these areas: sales, profit, satisfaction of publics, and image. Some retailers strive to achieve all the goals fully; others attend to a few and want to achieve them really well. Think about this array of goals for Canadian Tire:

Canadian Tire has an aggressive strategic growth plan, which it hopes will be able to withstand the increasingly competitive battle with Wal-Mart. The plan calls for (1) increasing comparable store sales by 3.4 percent, (2) growing gross margin by 10 percent, (3) increasing its return on invested capital by at least 10 percent after tax, (4) increasing earnings per share by 12 to 15 percent and (5) achieving a 10-percent lift in EBITDA (earnings before interest, tax, depreciation, and amortization).⁶

Canadian Tire (www.canadiantire.ca) is Canada's leading hard goods retailer, operating 452 stores coast to coast.

Sales

Sales objectives are related to the volume of goods and services a retailer sells. Growth, stability, and market share are the sales goals most often sought.

Some retailers set sales growth as a top priority. They want to expand their business. There may be less emphasis on short-run profits. The assumption is that investments in the present will yield future profits. A firm that does well often becomes interested in opening new units and enlarging revenues. However, management skills and the personal touch are sometimes lost with overly fast expansion.

Stability is the goal of retailers that emphasize maintaining their sales volume, market share, price lines, and so on. Small retailers often seek stable sales that enable the owners to make a satisfactory living every year without downswings or upsurges. And certain firms develop a loyal customer following and are intent not on expanding but on continuing the approach that attracted the original consumers.

For some firms, market share—the percentage of total retail-category sales contributed by a given company—is another goal. It is often an objective only for large retailers or retail chains. The small retailer is more concerned with competition across the street than with total sales in a metropolitan area.

Sales objectives may be expressed in dollars and units. To reach dollar goals, a retailer can engage in a discount strategy (low prices and high unit sales), a moderate strategy (medium prices and medium unit sales), or a prestige strategy (high prices and low unit sales). In the long run, having unit sales as a performance target is vital. Dollar sales by year

may be difficult to compare due to changing retail prices and inflation; unit sales are easier to compare. A firm with sales of \$350,000 three years ago and \$500,000 today might assume it is doing well, until unit sales are computed: 10,000 then and 8,000 now.

Profit

With profitability objectives, retailers seek at least a minimum profit level during a designated period, usually a year. Profit may be expressed in dollars or as a percentage of sales. For a firm with yearly sales of \$5 million and total costs of \$4.2 million, pre-tax dollar profit is \$800,000 and profits as a percentage of sales are 16 percent. If the profit goal is equal to or less than \$800,000, or 16 percent, the retailer is satisfied. If the goal is higher, the firm has not attained the minimum desired profit and is dissatisfied.

Firms with large capital expenditures in land, buildings, and equipment often set return on investment (ROI) as a goal. ROI is the relationship between profits and the investment in capital items. A satisfactory rate of return is pre-defined and compared with the actual return at the end of the year or other period. For a retailer with annual sales of \$5 million and expenditures (including payments for capital items) of \$4 million, the yearly profit is \$1 million. If the total capital investment is \$10 million, ROI is \$1 million/\$10 million, or 10 percent per year. The goal must be 10 percent or less for the firm to be satisfied.

Operating efficiency may be expressed as $[1 - (\text{Operating expenses}/\text{Company sales})]$. The higher the result, the more efficient the firm. A retailer with sales of \$2 million and operating costs of \$1 million has a 50 percent efficiency rating ($[1 - (\$1 \text{ million}/\$2 \text{ million})]$). Of every sales dollar, 50 cents goes for nonoperating costs and profits, and 50 cents for operating expenses. The retailer might set a goal to increase efficiency to 60 percent. On sales of \$2 million, operating costs would have to drop to \$800,000 ($[1 - (\$800,000/\$2 \text{ million})]$). Sixty cents of every sales dollar would then go for nonoperating costs and profits, and 40 cents for operations, which would lead to better profits. If a firm cuts expenses too much, customer service might decline; this may lead to a decline in sales and profit.

Satisfaction of Publics

Retailers typically strive to satisfy their publics: shareholders, customers, suppliers, employees, and government. Shareholder satisfaction is a goal for any publicly owned retailer. Some firms set policies leading to small annual increases in sales and profits (because these goals can be sustained over the long run and indicate good management) rather than ones based on innovative ideas that may lead to peaks and valleys in sales and profits (indicating poor management). Stable earnings lead to stable dividends.

Customer satisfaction with the total retail experience is a well-entrenched goal at most firms now. A policy of *caveat emptor* ("Let the buyer beware") will not work in today's competitive marketplace. Retailers must listen to criticism and adapt. If shoppers are pleased, other goals are more easily reached. Yet, for many retailers, other objectives rate higher in their list of priorities.

Good supplier relations is also a key goal. Retailers must understand and work with their suppliers to secure favourable purchase terms, new products, good return policies, prompt shipments, and cooperation. Relationships are very important for small retailers due to the many services that suppliers offer them.

Cordial labour relations is another goal that is often critical to retailer performance. Good employee morale means less absenteeism, better treatment of customers, and lower staffing turnover. Relations can be improved by effective selection, training, and motivation.

Because all levels of government impose rules affecting retailing practices, another goal should be to understand and adapt to these rules. In some cases, firms can influence rules by acting as members of large groups, such as trade associations or chambers of commerce.

Image (Positioning)

An **image** represents how a given retailer is perceived by consumers and others. A firm may be seen as innovative or conservative, specialized or broad-based, discount-oriented or upscale.

The key to a successful image is that consumers view the retailer in the manner the firm intends.

Through **positioning**, a retailer devises its strategy in a way that projects an image relative to its retail category and its competitors and that elicits a positive consumer response. A firm selling women's apparel could generally position itself as an upscale or midpriced specialty retailer, a department store, a discount department store, or a discount specialty retailer, and it could specifically position itself with regard to other retailers carrying women's apparel.

Two opposite positioning philosophies have gained popularity in recent years: mass merchandising and niche retailing. **Mass merchandising** is a positioning approach whereby retailers offer a discount or value-oriented image, a wide and/or deep merchandise selection, and large store facilities. The Bay has a wide, deep merchandise mix, whereas Sport Chek has a narrower, deeper assortment. These firms appeal to a broad customer market, attract a lot of customer traffic, and generate high stock turnover. Because mass merchants have relatively low operating costs, achieve economies in operations, and appeal to value-conscious shoppers, their continuing popularity is forecast.

In **niche retailing**, retailers identify specific customer segments and deploy unique strategies to address the desires of those segments rather than the mass market. Nicheing creates a high level of loyalty and shields retailers from more conventional competitors. Penningtons caters to plus-sized women, while Big and Tall pursues a similar strategy for men. Both chains are very focused on their chosen demographic. This approach will have a strong future because it lets retailers stress factors other than price and have a better focus. See Figure 3-6.

Because both mass merchandising and niche retailing are popular, some observers call this the era of **bifurcated retailing**. They believe this may mean the decline of middle-of-the-market retailing. Firms that are neither competitively priced nor particularly individualistic may have difficulty competing.

But between the mass merchandisers (such as The Bay) and niche players (such as BombayKIDS) are a variety of companies that are trying to pick out key customer needs to leverage greater sales from customers who are already coming to their stores. This type of positioning requires a convergence of product lines across traditional retail channels. This so-called category incursion or cross-channel shopping makes for unexpected competitors and high risks. Imagine hearing "Would you like some patio furniture with your milk and eggs?" or "I think we have just the kind of outfit you'll need to go with that new canoe right over here in our clothing department." Neither of these positioning ideas seems to make sense at first glance but both are being used by very successful firms: Loblaws has taken the notion of convergence to new levels while Canadian Tire has opened five new stores in which it has put its Mark's Work Wearhouse stores under the same roof as its standard stores.

In the United States, venerable J.C. Penney is also trying to walk a thin line between mass merchandisers and niche players by taking something from each. "We want to be positioned uniquely in a niche of our own by exceeding the fashion, quality, selection, and service components of the discounter; equalling the merchandise intensity of the specialty store; and providing the selection and one stop shopping of the department store."⁷

How far this strategy can be taken remains to be seen. Few observers would believe that the strategy chosen by



Penningtons (www.penningtons.com), a division of Reitmans, has a very focused strategy guiding its more than 125 stores.



Figure 3-6 Niche Retailing by Bombay of Canada

BombayKIDS, a new concept from the Bombay Company, shows niche marketing at its best. BombayKIDS is part of a new trend among many retailers to extend their business into new segments by targeting children (GapKids, Roots Kids, and La Senza Girl are similar strategies). According to retail industry analysts, parents and grandparents are willing to spend more lavishly than in the past due to dual careers and higher disposable incomes combined with smaller families. This means more opportunities for marketers who recognize that this customer base often prefers niche stores rather than mass merchandisers when it comes to buying for the kids and grandchildren.

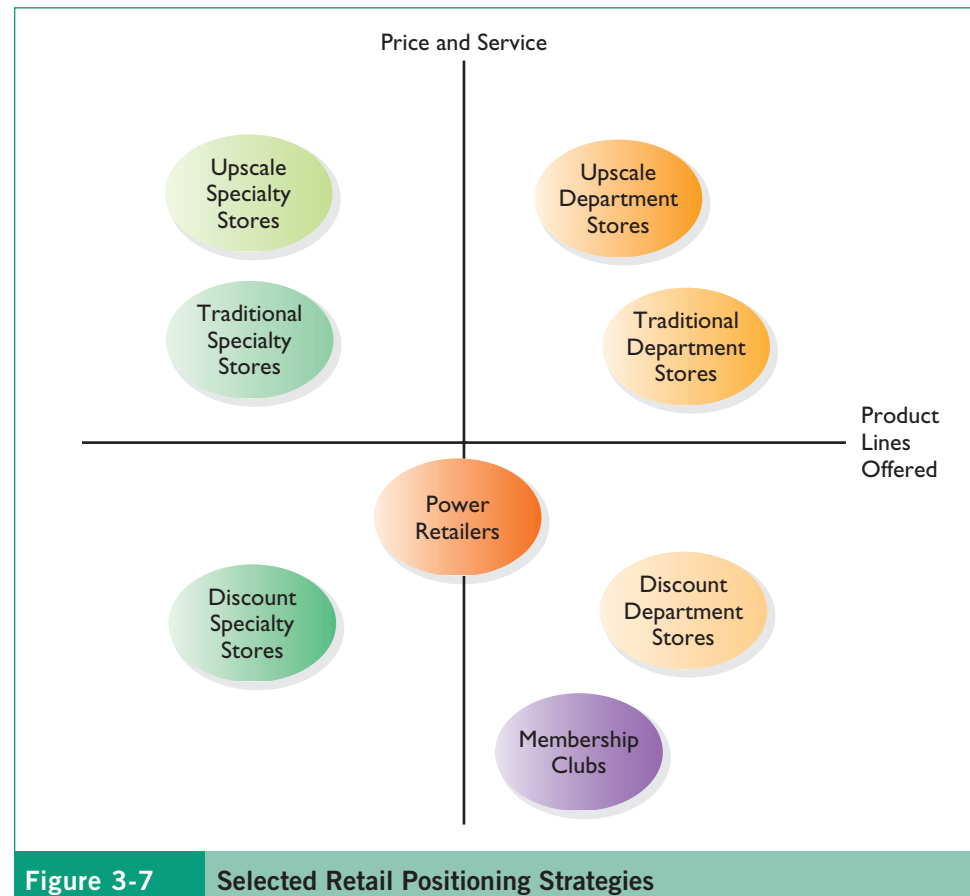
Source: Photography by Christopher Campbell.

Big Lots (www.biglots.com) is a shopping haven for consumers looking for bargains in close-outs and end-of-season goods.

western Canada's London Drugs could be so successful. Imagine a salesperson saying, "Can we interest you in a computer to go with your new prescription?" But London Drugs is one of the top computer and electronics resellers in the west. As some observers have said, it is the company that shouldn't exist but as many as 70 percent of B.C. shoppers visit a London Drugs store every week.

Most companies that try to find this elusive middle road between the specialty stores and the mass merchants fail. The risk, as you probably already suspect, is that by trying to be all things to all people, you end up being caught in the middle with a muddled value proposition that no one understands. Thus far, though, Loblaws in particular is showing that a very strong value proposition in one area can be leveraged into other areas as long as these areas satisfy an important customer need (such as convenience) and, equally as important, as long as the company can execute this proposition on a consistent basis. In essence, the positioning changes from one based on price or product to one that includes convenience as a more significant driver. Such a strategy is a lot easier to implement if you already have the foot traffic, of course. After all, household penetration rates for grocery stores are almost 100 percent.

Figure 3-7 shows a retail positioning map based on two shopping criteria: (1) price and service and (2) product lines offered. Our assumption: There is a link between price and service (high price equals excellent service). Upscale department stores offer outstanding customer service and carry several product lines. Traditional department stores (such as Sears) carry more electronics and other product lines than do upscale stores. They have trained sales staff to help customers. Discount department stores (such as Zellers) carry a lot of product lines and rely on self-service. Membership clubs (such as Costco) have a limited selection in a number of product categories. They have very low prices and plain surroundings. Upscale specialty stores (such as Harry Rosen) offer outstanding customer service and focus on one general product category. Traditional specialty stores (such as Gap) have trained



TECHNOLOGY IN RETAILING

Smart Cards: Are They Dumb to Consumers and Retailers?

Although smart cards look like traditional credit or debit cards, unlike regular credit or debit cards, smart cards can be refilled. A metallic chip integrated into the smart card enables the card to store its remaining value. While the smart card's widespread use has been predicted for years, expectations have not been realized.

Despite high levels of advertising by banks aimed at getting European consumers to use their smart cards, these cards have not taken off in the Benelux countries where they were first introduced. For example, smart card usage has remained at less than 1 percent of retail sales in the Netherlands since being launched in 1995. According to a spokesperson for a major department store chain in the Netherlands, "Consumers just don't see much of an advantage to using smart cards rather than cash. Consumers know how much cash they have in their pockets, but they often don't know how much value is on their smart cards. And refilling them is a chore."

Another problem with smart cards is the high fees to retailers. These fees are significant because smart cards are often targeted at small purchases that do not warrant a credit or debit card. To further complicate matters, there are two smart card standards in countries such as the Netherlands that are incompatible (which causes difficulties for retailers).

Source: Matt Nannery, "Smart Cards Are No Dutch Treat," *Chain Store Age*, May 2001, p. 258.

sales staff to help customers and focus on one general product category. Discount specialty stores (such as Old Navy) rely more on self-service and focus on one general product category. Power retailers (such as Indigo Books & Music) offer moderate service and prices and a huge assortment within one general product category.

Selection of Objectives

A firm that clearly sets its goals and devises a strategy to achieve them improves its chances of success.

An example of a retailer that sets clear goals and reports how well it achieves them is Sobeys, Inc. Canada's second-largest grocer operates 1,300 stores under two major banners, Sobeys and IGA, and is up against one of the country's best marketers in Loblaws. As noted in its annual report, Sobeys' goals were:

- Sales growth between 6 and 8 percent
- Operating earnings per share growth between 12 and 16 percent
- Companywide capital expenditures of approximately \$550 million to \$600 million
- National share of requirements of 20 percent
- Maintenance of first-quarter supplier rating

In a presentation on the company's achievement of its goals to the CIBC World Conference on Retailing, Sobeys CEO Bill McEwan drew these conclusions about the firm's performance and the strategies needed to achieve them:

- Our sales per square foot lag
- We must develop fewer brands, well
- One "size" will not fit all
- Just incremental change will not win
- We must be competitive on price
- We must differentiate or perish
- Productivity must fuel our growth
- Focus is the key⁸

[[CATCH IMAGE: fg Sobeys's Obj; author to provide]]

(approx. space, will cause text to reflow)
formatter

IDENTIFICATION OF CONSUMER CHARACTERISTICS AND NEEDS

The customer group sought by a retailer is called the **target market**. In selecting its target market, a firm may use one of three techniques: **mass marketing**, selling goods and services to a broad spectrum of consumers; **concentrated marketing**, zeroing in on one specific group; or **differentiated marketing**, aiming at two or more distinct consumer groups, with different retailing approaches for each group.

Supermarkets and drugstores define their target markets broadly. They sell a wide assortment of medium-quality items at popular prices. In contrast, a small upscale men’s shoe store appeals to a specific consumer group by offering a narrow, deep product assortment at above-average prices (or in other cases, below-average prices). A retailer aiming at one segment does not try to appeal to everyone.

Department stores are among the retailers seeking multiple market segments. They cater to several customer groups, with unique goods and services for each; apparel may be sold in a number of distinctive boutiques in the store. Also, large retail chains frequently have divisions that appeal to different market segments. Hbc operates The Bay (traditional department stores) for customers interested in full service and Zellers (discount department stores) for those interested in low prices.

After choosing the target market, a firm can determine its best competitive advantages and devise a strategy mix. See Table 3-3. The significance of **competitive advantages**—the distinct competencies of a retailer relative to competitors—must not be overlooked. Some examples will demonstrate this.

Holt Renfrew seeks affluent, status-conscious consumers. It places stores in prestigious shopping areas, offers high-quality products, uses elegant ads, has extensive customer services, and sets rather high prices. Sears targets middle-class, value-conscious shoppers. It locates mostly in suburban shopping areas, offers national brands and Sears brands of medium quality, features good values in ads, has some customer services, and charges below-average to average prices. Buck or Two, a chain of off-price stores, aims at extremely price-conscious consumers. It locates in low-rent strip shopping centres or districts, offers national brands (sometimes overruns and seconds) of average to below-average quality, emphasizes low prices, offers few customer services, and sets very low prices. The key to the success of each of these retailers is its ability to define customers and cater to their needs in a distinctive manner.

Today, with its “Eat well—spend less” positioning, Loblaw’s has kept the essence of its “More for Less” strategy but—as can be seen from its Web site—continually updated it.

Is the Holt Renfrew (www.holtrenfrew.com) Web site consistent with the image it wants to project?

TABLE 3-3 Target Marketing Techniques and Their Strategic Implications			
Strategic Implications	Target Market Techniques		
	Mass Marketing	Concentrated Marketing	Differentiated Marketing
Retailer’s location	Near a large population base	Near a small or medium population base	Near a large population base
Goods and service mix	Wide selection of medium-quality items	Selection geared to market segment—high- or low-quality items	Distinct goods/services aimed at each market segment
Promotion efforts	Mass advertising	Direct mail, e-mail, subscription	Different media and messages for each segment
Price orientation	Popular prices	High or low	High, medium, and low—depending on market segment
Strategy	One general strategy for a large homogeneous (similar) group of consumers	One specific strategy directed at a specific, limited group of customers	Multiple specific strategies, each directed at different (heterogeneous) groups of consumers

Now, the “more” is not simply more breadth in groceries but more breadth in a whole range of everyday products and services. Shoppers can drop off their film at PhotoLab; drop off their prescription at the DRUGstore Pharmacy; do some banking at PC Financial; buy some wine and pick up flowers while also picking up dinner. In some markets, shoppers can also see a cosmetician, consult with a dietitian, or squeeze in a workout at the fitness club. Then, on the way home, they can gas up the minivan before they leave the parking lot. See Figure 3-8.

A retailer is better able to select a target market and satisfy customer needs if it has a good understanding of consumer behaviour. This topic is discussed in Chapter 7.

OVERALL STRATEGY

Next, the retailer develops an in-depth overall strategy. This involves two components: **controllable variables** (the aspects of business the firm can directly affect) and **uncontrollable variables** (those to which the retailer must adapt). See Figure 3-9.

A strategy must be devised with both variables in mind. The ability of retailers to grasp and predict the effects of controllable and uncontrollable variables is greatly aided by the use of suitable data. In Chapter 8, information gathering and processing in retailing are described.



Figure 3-8 Loblaw's: Keeping a Competitive Edge

Loblaw's (www.loblaw.ca) has continued to evolve its strategy. T.P. Loblaw and Justin Cork opened the doors to their first grocery store in Toronto in 1919. By adopting a self-service approach—a very controversial strategy in 1919—they were able to provide more breadth at a lower price (more for less).

Controllable Variables

The controllable parts of a retail strategy consist of the basic categories shown in Figure 3-9: store location, managing a business, merchandise management and pricing, and communicating with the customer. A good strategy integrates these areas. These elements are covered in Chapters 9 to 19.

Store Location A retailer has several store location decisions to make. The initial one is whether to use a store or nonstore format. Then, for store-based retailers, a general location and a specific site are determined. Competitors, transportation access, population density, the type of neighbourhood, nearness to suppliers, pedestrian traffic, and store composition are considered in picking a location.

The terms of tenancy (such as rent and operating flexibility) are reviewed and a build, buy, or rent decision is made. The locations of multiple outlets are considered if expansion is a goal.

Managing a Business Two major elements are involved in managing a business: the retail organization and human resource management, and operations management. Tasks, policies, resources, authority, responsibility, and rewards are outlined via a retail organization structure. Practices regarding employee hiring, training, compensation, and supervision are



Figure 3-9 Developing an Overall Retail Strategy

instituted through human resource management. Job descriptions and functions are communicated, along with the responsibility of all personnel and the chain of command.

Operations management oversees the tasks that satisfy customer, employee, and management goals. The financial aspects of operations involve asset management, budgeting, and resource allocation. Other elements include store format and size, personnel use, store maintenance, energy management, store security, insurance, credit management, computerization, and crisis management.

Merchandise Management and Pricing In merchandise management, the general quality of the goods and services offering is set. Decisions are made as to the width of assortment (the number of product categories carried) and the depth of assortment (the variety of products carried in any category). Policies are set with respect to introducing new items. Criteria for buying decisions (how often, what terms, and which suppliers) are established. Forecasting, budgeting, and accounting procedures are outlined, as is the level of inventory for each type of merchandise. Finally, the retailer devises procedures to assess the success or failure of each item sold.

With regard to pricing, a retailer chooses from among several techniques, and it decides what range of prices to set, consistent with the firm's image and the quality of goods and services offered. The number of prices within each product category is determined, such as how many prices of luggage to carry. Also, the use of markdowns is planned in advance.

Communicating With the Customer An image can be created and sustained by applying various techniques.

The physical attributes, or atmosphere, of a store and its surrounding area greatly influence consumer perceptions. The impact of the storefront (the building's exterior or the home page for a Web retailer) should not be undervalued, as it is the first physical element seen by customers. Once inside, layouts and displays, floor colours, lighting, scents, music, and the kind of sales personnel also contribute to a retailer's image. Customer services and community relations generate a favourable image for the retailer.

The right use of promotional tools enhances sales performance. These tools range from inexpensive flyers for a take-out restaurant to an expensive national ad campaign for a franchise chain. Three forms of paid promotion are available: advertising, personal selling, and sales promotion. In addition, a retailer can obtain free publicity when stories about it are written, televised, or broadcast.

While the preceding discussion outlined the controllable parts of a retail strategy, uncontrollable variables (discussed next) must also be kept in mind.

RETAILING AROUND THE WORLD

Esprit de Corp. Has New Parents in Hong Kong and Germany

San Francisco-based Esprit de Corp. (www.esprit.com) recently sold its trademark rights to its Hong Kong-based partner. Under founders Doug and Susie Tompkins, Esprit grew rapidly from the late 1970s to the late 1980s. During this time, Esprit's international partners also made the firm into a global brand.

Although Esprit's Asian and European businesses came together in 1997 with a design headquarters in Germany and retail headquarters located in Hong Kong, the American unit continued to have its own sourcing and distribution facilities. However, during the late 1990s and early 2000s, the European and Asian retail businesses thrived while the American unit continued its decline.

Esprit's new owners want to apply the European model to the U.S. operation. They want to position Esprit as a contemporary and affordable lifestyle brand with an international flavour. Esprit now plans to sell its products to discounters, general merchandise stores, and full-service department stores. To avoid oversaturating the market, one store may receive Esprit's junior line while a neighbouring store may get its children's line. Esprit will also continue to have company-owned and franchised stores that feature the brand's full range of offerings, including licensed goods, such as watches and jewellery.

Source: Marianne Wilson, "Shopping Esprit," *Chain Store Age*, May 2002, pp. 51–52.

Uncontrollable Variables

The uncontrollable parts of a strategy are composed of the factors shown in Figure 3-9: consumers, competition, technology, economic conditions, seasonality, and legal restrictions. Farsighted retailers monitor the external environment and adapt the controllable parts of their strategies to take into account elements beyond their immediate control.

Consumers A skillful retailer knows it cannot alter demographic trends or lifestyle patterns, impose tastes, or “force” goods and services on people. The firm learns about its target market and forms a strategy consistent with consumer trends and desires. It cannot sell goods or services that are beyond the price range of customers, that are not wanted, or that are not displayed or advertised in the proper manner.

Competition There is often little that retailers can do to limit the entry of competitors. In fact, a retailer’s success may encourage the entry of new firms or cause established competitors to modify their strategies to capitalize on the popularity of a successful retailer. A major increase in competition should lead a company to re-examine its strategy, including its target market and merchandising focus, to ensure that it sustains a competitive edge. A continued willingness to satisfy the target market better than any competitor does is fundamental.

Technology Computer systems are available for inventory control and checkout operations. There are more high-tech ways to warehouse and transport merchandise. Toll-free 800 numbers are popular for consumer ordering. And, of course, there is the Web. Nonetheless, some advancements are expensive and may be beyond the reach of small retailers. For example, although small firms might have computerized checkouts, they will probably be unable to use fully automated inventory systems. As a result, their efficiency may be less than that of larger competitors. They must adapt by providing more personalized service.

Economic Conditions Economic conditions are beyond any retailer’s control, no matter how large it is. Unemployment, interest rates, inflation, tax levels, and the annual gross domestic product (GDP) are just some economic factors with which a retailer copes. In outlining the controllable parts of its strategy, a retailer needs to consider forecasts about international, national, provincial or territorial, and local economies.

Seasonality A constraint on certain retailers is their seasonality and the possibility that unpredictable weather will play havoc with sales forecasts. Retailers selling sports equipment, fresh food, travel services, and car rentals cannot control the seasonality of demand or bad weather. They can, however, diversify offerings to carry a goods/service mix with items that are popular in different seasons. Thus, a sporting goods retailer can emphasize ski equipment and snowmobiles in the winter, baseball and golf equipment in the spring, scuba equipment and fishing gear in the summer, and basketball and football supplies in the fall.

Legal Restrictions Retailers operating in Canada are subject to federal and provincial or territorial laws and regulations, the most important of which are developed by the Competition Bureau. The basic premise of the Bureau is that competition is good for both businesses and consumers; fair competition “makes the economy work more efficiently; strengthens businesses’ ability to adapt and compete in global markets; gives small and medium businesses an equitable chance to compete and participate in the economy; provides consumers with competitive prices, product choices and the information they need to make informed purchasing decisions; and balances the interests of consumers and producers, wholesalers and retailers, dominant players and minor players, the public interest and the private interest.”⁹

At the provincial or territorial and local levels, retailers have to deal with many restrictions. Zoning laws prohibit firms from operating at certain sites and demand that building specifications be met. Blue laws limit the times during which retailers can conduct business. Construction, smoking, and other codes are imposed by the province or territorial and municipality. The licences to operate some businesses are under provincial or territorial or city jurisdiction.

For more information, contact the Competition Bureau (www.cb-bc.gc.ca), provincial and local bodies, the Canadian Council of Better Business Bureaus (www.canadiancouncilbbb.ca),

the Retail Council of Canada (www.retailcouncil.org) or a specialized group, such as the Canadian Marketing Association (www.the-cma.org).

Table 3-4 shows how each controllable aspect of a retail strategy is affected by the legal environment.

Integrating Overall Strategy

What do you think about the overall strategy of Hertz (www.hertz.com)?

At this point, the retailer has devised an overall strategy. It has chosen a mission, an ownership and management style, and a goods/service category. Long- and short-run goals have been set. A consumer market has been designated and studied. General decisions have been made about store location, managing the business, merchandise management and pricing, and communications. These elements must be coordinated to have a consistent, integrated strategy and to systematically account for uncontrollable variables (consumers, competition, technology, economic conditions, seasonality, and legal restrictions).

The company is now ready to perform the specific tasks to carry out its strategy productively.

TABLE 3-4 The Impact of the Legal Environment on Retailing^a

Controllable Factor	Affected Selected Legal Constraints on Retailers
Store Location	<p><i>Zoning laws</i> restrict the potential choices for a location and the type of facilities constructed.</p> <p><i>Blue laws</i> restrict the days and hours during which retailers may operate.</p> <p><i>Environmental laws</i> limit the retail uses of certain sites.</p> <p><i>Door-to-door (direct) selling laws</i> protect consumer privacy.</p> <p><i>Local ordinances</i> involve fire, smoking, outside lighting, capacity, and other rules.</p> <p><i>Leases and mortgages</i> require parties to abide by stipulations in tenancy documents.</p>
Managing the Business	<p><i>Licensing provisions</i> mandate minimum education and/or experience for certain personnel.</p> <p><i>Personnel laws</i> involve nondiscriminatory hiring, promoting, and firing of employees.</p> <p><i>Antitrust laws</i> limit large firm mergers and expansion.</p> <p><i>Franchise agreements</i> require parties to abide by various legal provisions.</p> <p><i>Business taxes</i> include real-estate and income taxes.</p> <p><i>Recycling laws</i> mandate that retailers participate in the recycling process for various materials.</p>
Merchandise Management and Pricing	<p><i>Trademarks</i> provide retailers with exclusive rights to the brand names they develop.</p> <p><i>Merchandise restrictions</i> forbid some retailers from selling specified goods or services.</p> <p><i>Product liability laws</i> allow retailers to be sued if they sell defective products.</p> <p><i>Lemon laws</i> specify consumer rights if products, such as autos, require continuing repairs.</p> <p><i>Sales taxes</i> are required in most provinces or territories, although <i>tax-free days</i> have been introduced in some locales to encourage consumer shopping.</p> <p><i>Unit-pricing laws</i> require price per unit to be displayed (most often applied to supermarkets).</p> <p><i>Collusion laws</i> prohibit retailers from discussing selling prices with competitors.</p> <p><i>Sale prices</i> must be a reduction from the retailer's normal selling prices.</p> <p><i>Price discrimination laws</i> prohibit suppliers from offering unjustified discounts to large retailers that are unavailable to smaller ones.</p>
Communicating With the Customer	<p><i>Truth-in-advertising and -selling laws</i> require retailers to be honest and not omit key facts.</p> <p><i>Truth-in-credit laws</i> require that shoppers be informed of all terms when buying on credit.</p> <p><i>Telemarketing laws</i> protect the privacy and rights of consumers regarding telephone sales.</p> <p><i>Bait-and-switch laws</i> make it illegal to lure shoppers into a store to buy low-priced items and then to aggressively try to switch them to higher-priced ones.</p> <p><i>Inventory laws</i> mandate that retailers must have sufficient stock when running sales.</p> <p><i>Labelling laws</i> require merchandise to be correctly labelled and displayed.</p> <p><i>Cooling-off laws</i> let customers cancel completed orders, often made by in-home sales, within three days of a contract date.</p>

^aThis table is broad in nature and omits a law-by-law description. Many laws are provincial or territorial or locally oriented and apply only to certain locations; the laws in each place differ widely. The intent here is to give the reader some understanding of the current legal environment as it affects retail management.

ETHICS IN RETAILING

Canada's Largest Sporting Goods Retailer Pays \$1.7 Million for Misleading Consumers

In July 2004, the Forzani Group Ltd. (FGL), which controls 391 stores including Sport Chek, agreed to change the way it priced and advertised.

The Competition Bureau searched the FGL head offices in Calgary and determined that the company “significantly inflated the ‘regular’ prices of certain products thereby overstating the savings to consumers at the so-called ‘sale’ prices.

According to the press release, “The Bureau continues to commit its energies to cleaning up all deceptive marketing practices. Consumers must feel confident that they are receiving truthful information about the price and quality of the goods they purchase.”

Without oversight mechanisms like the Competition Bureau, consumers may lose the confidence that they must have to make a market economy work. When all is said and done though, the Bureau can not review every business's advertising. For that reason, retailers themselves take a proactive role in ensuring that they, and their competitors, do not violate consumer trust. In a market-based system, competitive monitoring is an integral mechanism for ensuring that business practices are ethical.

Source: www.strategis.is.gc.ca/epic/internet/incb-bc.nsf/en/ct02872e.html, accessed August 4, 2004.

SPECIFIC ACTIVITIES

Short-run decisions are now made and enacted for each controllable part of the strategy in Figure 3-9. These actions are known as **tactics** and encompass a retailer's daily and short-term operations. They must be responsive to the uncontrollable environment. Here are some tactical moves a retailer may make:

- *Store location:* Trading-area analysis gauges the area from which a firm draws its customers. The level of saturation in a trading area is studied regularly. Relationships with nearby retailers are optimized. A chain carefully decides on the sites of new outlets. Facilities are actually built or modified.
- *Managing the business:* There is a clear chain of command from managers to workers. An organization structure is set into place. Personnel are hired, trained, and supervised. Asset management tracks assets and liabilities. The budget is spent properly. Operations are systemized and adjusted as required.
- *Merchandise management and pricing:* The assortments within departments and the space allotted to each department require constant decision making. Innovative firms look for new merchandise and clear out slow-moving items. Purchase terms are negotiated and suppliers sought. Selling prices reflect the firm's image and target market. Prices offer consumers some choice. Adaptive actions are needed to respond to higher supplier prices and react to competitors' prices.
- *Communicating with the customer:* The storefront and display windows, store layout, and merchandise displays need regular attention. These elements help gain consumer enthusiasm, present a fresh look, introduce new products, and reflect changing seasons. Ads are placed during the proper time and in the proper media. The deployment of sales personnel varies by merchandise category and season.

The Canadian Association of Chain Drug Stores (www.cacds.ca) tracks all kinds of tactical moves made by various channels of retailing, from tracking market growth rates to trends in hours of operation. CACDS is indispensable to retail drug stores. Chain Store Age (www.chainstoreage.com) is a widely used U.S. source for retailing news relevant to Canadian businesses.

The essence of excellent retailing is building a sound strategy and fine-tuning it. A firm that stands still is often moving backward. Tactical decision making is discussed in detail in Chapters 9 through 19.

CONTROL

In the **control** phase, a review takes place (Step VI in Figure 3-1), as the strategy and tactics (Steps IV and V) are assessed against the business mission, objectives, and target market (Steps I, II, and III). This procedure is called a retail audit, which is a systematic process for analyzing the performance of a retailer. The retail audit is covered in Chapter 20.

The strengths and weaknesses of a retailer are revealed as performance is reviewed. The aspects of a strategy that have gone well are continued; those that have gone poorly are revised, consistent with the mission, goals, and target market. The adjustments are reviewed in the firm's next retail audit.

FEEDBACK

During each stage in a strategy, an observant management receives signals or cues, known as **feedback**, as to the success or failure of that part of the strategy. Refer to Figure 3-1. Positive feedback includes high sales, no problems with the government, and low employee turnover. Negative feedback includes falling sales, government sanctions (such as fines), and high turnover.

Retail executives look for positive and negative feedback so they can determine the causes and then capitalize on opportunities or rectify problems.

Summary

1. *To show the value of strategic planning for all types of retailers.*

A retail strategy is the overall plan that guides a firm. It consists of situation analysis, objectives, identification of a customer market, broad strategy, specific activities, control, and feedback. Without a well-conceived strategy, a retailer may stumble or be unable to cope with environmental factors.

2. *To explain the steps in strategic planning for retailers.*

Situation analysis is the candid evaluation of opportunities and threats. It looks at the firm's current position and where it should be heading. This analysis includes defining an organizational mission, evaluating ownership and management options, and outlining the goods/service category. An organizational mission is a commitment to a type of business and a place in the market. Ownership/management options include having a sole proprietorship, partnership, or corporation; starting a business, buying an existing one, or being a franchisee; using owner management or professional management; and being centralized or decentralized. The goods/service category depends on personal abilities, finances, and time resources.

3. *To examine the individual controllable and uncontrollable elements of a retail strategy.*

There are four major controllable factors in retail planning: store location, managing the business, merchandise management and pricing, and communicating with the customer. The principal uncontrollable factors affecting retail planning are consumers, competition, technology, economic conditions, seasonality, and legal restrictions.

4. *To present strategic planning as a series of integrated steps.*

Each stage in the strategic planning process needs to be

performed, undertaken sequentially, and coordinated in order to have a consistent, integrated, unified strategy.

Objectives are the retailer's long- and short-run goals. A firm may pursue one or more of these goals: sales (growth, stability, and market share), profit (level, return on investment, and efficiency), satisfaction of publics (shareholders, consumers, and others), and image/positioning (customer and industry perceptions).

Next, consumer characteristics and needs are determined, and a retailer selects a target market. A firm can sell to a broad spectrum of consumers (mass marketing); zero in on one customer group (concentrated marketing); or aim at two or more distinct groups of consumers (differentiated marketing), with separate retailing approaches for each.

A broad strategy is then formed. It involves controllable variables (aspects of business a firm can directly affect) and uncontrollable variables (factors a firm cannot control and to which it must adapt).

After a general strategy is set, a firm makes and implements short-run decisions (tactics) for each controllable part of that strategy. Tactics must be forward-looking and respond to the environment.

Through a control process, strategy and tactics are evaluated and revised continuously. A retail audit systematically reviews a strategy and its execution on a regular basis. Strengths are emphasized and weaknesses minimized or eliminated.

An alert firm seeks out signals or cues, known as feedback, that indicate the level of performance at each step in the strategy.

KEY TERMS

bifurcated retailing (p. 59)	image (p. 59)	retail strategy (p. 48)
competitive advantages (p. 62)	mass marketing (p. 61)	situation analysis (p. 50)
concentrated marketing (p. 61)	mass merchandising (p. 59)	sole proprietorship (p. 52)
control (p. 67)	niche retailing (p. 59)	tactics (p. 66)
controllable variables (p. 63)	objectives (p. 57)	target market (p. 61)
corporation (p. 52)	opportunities (p. 50)	threats (p. 50)
differentiated marketing (p. 62)	organizational mission (p. 50)	uncontrollable variables (p. 63)
feedback (p. 68)	partnership (p. 52)	
goods/service category (p. 53)	positioning (p. 59)	

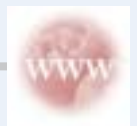
Questions for Discussion

1. Why is it necessary to develop a thorough, well-integrated retail strategy? What could happen if a firm does not develop such a strategy?
2. How would situation analysis differ for a consumer electronics store chain and an online consumer electronics retailer?
3. What are the pros and cons of starting a new restaurant versus buying an existing one?
4. Develop a checklist to help a prospective service retailer choose the proper service category in which to operate. Include personal abilities, financial resources, and time demands.
5. Why do retailers frequently underestimate the financial and time requirements of a business?
6. Draw and explain a positioning map showing the kinds of retailers selling food products.
7. Discuss local examples of retailers' applying mass marketing, concentrated marketing, and differentiated marketing.
8. Marsha Hill is the store manager at a popular gift store. She has saved \$100,000 and wants to open her own store. Devise an overall strategy for Marsha, including each of the controllable factors listed in Figure 3-9 in your answer.
9. A competing toy store has a better location than yours. It is in a modern shopping centre with a lot of customer traffic. Your store is in an older neighbourhood and requires customers to travel farther to reach you. How could you use a merchandising, pricing, and communications strategy to overcome your disadvantageous location?
10. Describe how a retailer can use fine-tuning in strategic planning.
11. How are the control and feedback phases of retail strategy planning interrelated? Give an example.
12. Should a store-based camping equipment retailer use the strategic planning process differently from a catalogue retailer? Why or why not?

Web-Based Exercise

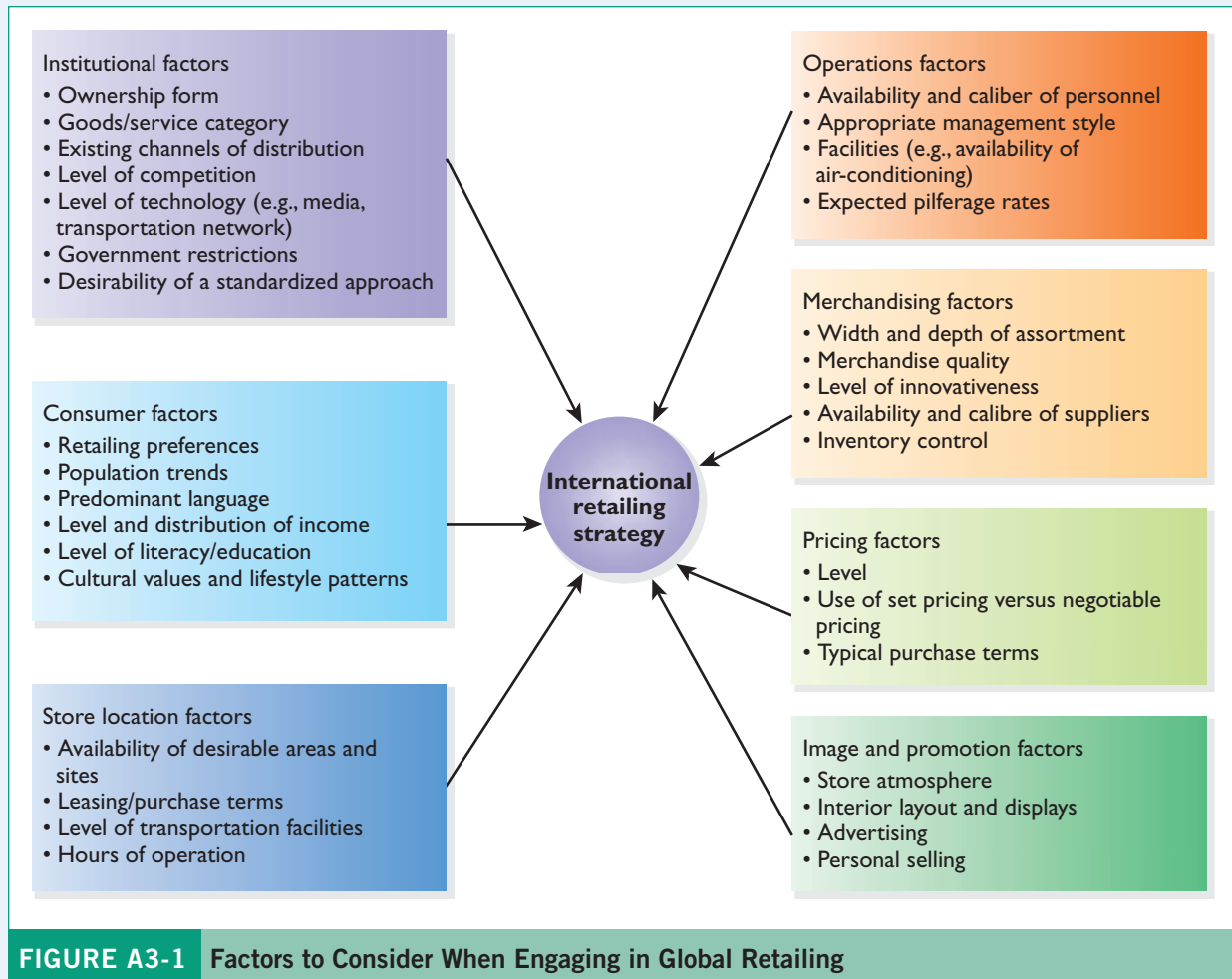
Visit the Web site of Carrefour (www.carrefour.com), one of the world's largest retailers. Describe and evaluate the company based on the information you find there. What Canadian firm does it most resemble? Why?

Note: Stop by our Web site (www.pearsoned.ca/bermanevans) to experience a number of highly interactive, appealing Web exercises based on actual company demonstrations and sample materials related to retailing.



Appendix 3A: The Special Dimensions of Strategic Planning in a Global Retailing Environment

There are about 270 countries—with 6.5 billion people and a U.S.\$35 trillion economy—in the world. The Canadian market accounts for only a tiny fraction of the world's population and the worldwide economy. Although an attractive marketplace, especially for U.S. firms that see expansion into Canada as a logical step, there are also many other appealing mar-



Michigan State University's CIBER (<http://ciber.bus.msu.edu>) is an excellent source of information on global business practices.

kets. In fact, the United States is a very appealing market for Canadian firms, as it accounts for nearly 30 percent of the world's economy, despite having only 5 percent of the world's population.

The strategic planning challenge is clear: "Every global retail strategy must be built on three pillars: (1) The retailer must offer a competitively superior product as defined by local consumers. (2) The retailer must develop superior economics across the value chain that delivers the product to the local consumer. (3) The retailer must execute in the local environment. These pillars are much more difficult to create in retailing than in manufacturing."¹⁰ In embarking on an international retailing strategy, firms should consider the factors shown in Figure A3-1.

THE STRATEGIC PLANNING PROCESS AND GLOBAL RETAILING

Retailers looking to operate globally should follow these four steps *in conjunction with* the strategic planning process described in Chapter 3:

1. *Assess your international potential:* "You must first focus on assessing your international potential to get a picture of the trends in your industry, your domestic position in that industry, the effects that international activity may have on current operations, the status of your resources, and an estimate of your sales potential. Find out about candidate countries by using research. It's easy to ruin a good plan by making fundamental cultural, partnering, or resource allocation mistakes."

2. *Get expert advice and counselling:* The Canadian government is very interested in increasing exports, and its agencies have lots of advice for firms that want to go international. In addition, many private sector organizations specialize in helping exporters. go to the federal government's site at www.exportsource.gc.ca for an excellent portal of helpful information.
3. *Select your countries:* "You need to prioritize information about each country's economic strength, political stability, regulatory environment, tax policy, infrastructure development, population size, and cultural factors. For example, the economy of a country is generally considered critical to most businesses. Equally critical are political factors, particularly government regulations. Others are more dependent on which product you market. The technological stage of a country has a more influential role for computers than for cosmetics."
4. *Develop, implement, and review an international retailing strategy:* "In general, a successful strategy identifies and manages your objectives, both immediate and long range; specifies tactics you will use; schedules activities and deadlines; and allocates resources among those activities. The plan should cover a two- to five-year period, depending on what you are selling, competitors' strength, conditions in target countries, and other factors. Keep your strategy flexible because often it is only after entering a country that you realize that your way of doing business needs modification. The best strategies can be changed to exploit unique local conditions and circumstances. Don't underestimate the local competition, but don't overestimate it either."¹¹

The United Nations (www.un.org) has a wealth of useful data about the international environment.

OPPORTUNITIES AND THREATS IN GLOBAL RETAILING

For participating firms, there are wide-ranging opportunities and threats in global retailing.

Opportunities

- Foreign markets may be used to supplement domestic sales.
- Foreign markets may represent good growth opportunities when domestic markets are saturated or stagnant.
- A retailer may be able to offer goods, services, or technology not yet available in foreign markets.
- Competition may be less in foreign markets.
- There may be tax or investment advantages in foreign markets.
- Because of government and economic shifts, many countries are more open to the entry of foreign firms.
- Communications are easier than before. The World Wide Web enables retailers to reach customers and suppliers well outside their domestic markets.

Threats

- There may be cultural differences between domestic and foreign markets.
- Management styles may not be easily adaptable.
- Foreign governments may place restrictions on some operations.
- Personal income may be poorly distributed among consumers in foreign markets.
- Distribution systems and technology may be inadequate (for example, poor roads and lack of refrigeration). This may minimize the effectiveness of the Web as a selling tool.
- Institutional formats vary greatly among countries.
- Currencies are different. The countries in the European Union have sought to alleviate this problem by introducing the euro, a common currency, in most of their member nations.

Standardization: An Opportunity and a Threat

When devising a global strategy, a retailer must pay attention to the concept of *standardization*. Can the strategy in the home market be standardized and directly applied to foreign markets, or do personnel, physical facilities, operations, advertising messages, product lines, and other factors have to be adapted to local conditions and needs? Table A3-1 shows how the economies differ in 15 countries. And consider this: If you intend to enter a foreign market, you must be very sensitive to local cultural issues, and then be humble enough to accept that no matter how well you have prepared, some aspect of local culture will probably surprise you. Your entry plans must consist of some measure of humility and flexibility. You will inevitably be facing execution challenges that you had not adequately considered in the planning stage of your market entry.¹²

FACTORS AFFECTING THE SUCCESS OF A GLOBAL RETAILING STRATEGY

Several factors can affect the level of success of an international retailing strategy:

- *Timing*: “Being first in a market doesn’t ensure success, but being there before the serious competition does increase one’s chances.”
- *A balanced international program*: “Market selection is critical.”
- *A growing middle class*: “A rapidly growing middle class means expandable income, which translates into sales.”
- *Matching concept to market*: “In *developed* markets, where quality and fashion are more appreciated, specialty operations are entering with success. In *developing* markets, discount/combination (food and general merchandise) retailers have been successful. Consumers there are more interested in price, assortment, value, and convenience.” See Table A3-2.

TABLE A3-1 The Global Economy, Selected Countries

Country	2001 Population (millions)	2001 Population Density (per sq. kilometre)	2000 per Capita GDP (U.S.\$)	Annual GDP Growth Rate (%)	2000 per Capita Retail Sales (U.S.\$)	2002 World Competitiveness Ranking Among the 15 Countries Listed
Brazil	174	20	6,500	4.2	555	8
Canada	32	3	22,800	4.3	4,278	2
China	1,273	134	3,600	8.0	307	10
France	60	108	24,400	3.1	4,833	5
Germany	83	234	23,400	3.0	5,448	3
Great Britain	60	244	22,800	3.0	5,268	4
India	1,030	337	2,200	6.0	220	12
Indonesia	228	118	2,900	4.8	119	15
Italy	58	195	22,100	2.7	4,484	9
Japan	127	336	24,900	1.3	8,578	6
Mexico	102	52	9,100	7.1	962	11
Russia	145	9	7,700	6.3	456	14
South Africa	44	36	8,500	3.0	580	13
South Korea	48	475	16,100	9.0	1,908	7
United States	278	30	36,200	5.0	8,135	1

GDP is a country's gross domestic product. Per capita GDP is expressed in terms of purchasing power parity.

World Competitiveness Ranking is based on a country's economic performance, government efficiency, business efficiency, and infrastructure.

Sources: Compiled by the authors from CIA World Factbook 2002; IMD, 2002 World Competitiveness Yearbook; and Euromonitor.

TABLE A3-2 Preparing for Different Global Markets**Developed, Mature Markets***Issues*

- Increasing competition, deteriorating margins, and saturation
- Consolidation and rationalization (cost cutting), forcing poor performers out of the market
- New enabling technologies
- Demanding customers
- Limited growth

Implications

- Retailers must focus on maximizing operational efficiencies, vendor relationships, infrastructure, and technology
- For growth, large retailers are expanding regionally and then globally into developed or developing markets

Developing, Immature Markets*Issues*

- Minimal purchasing power per capita, yet strong economic growth and pent-up demand
- Huge customer base, representing up to 70 percent of the world's population
- Infrastructure issues—transportation, communication, etc.—may pose problems
- Disorganized, fragmented retail structures that are vulnerable to new entrants
- The number of indigenous large retailers is small to none
- Strong protectionist measures may exist

Implications

- Tremendous opportunity for large retailers, limited competition, huge growth potential
- Initial entry may need to be through intermediary, joint venture, etc.

Source: Deloitte & Touche, "Global Powers of Retailing," *Stores*, January 1998, Section 3, p. S15. Reprinted by permission.

- *Solo or partnering:* "When establishing a presence, retailers have often chosen the route of joint ventures with local partners. This makes it easier to establish government contacts and learn the ways of getting things done."
- *Store location and facilities:* "Foreign retailers often have to adapt their concepts to different real-estate configurations in other markets." Shopping malls may be rare in some places.
- *Product selection:* "Consumers in most parts of the world would be overwhelmed by the product assortment in North American stores."
- *Service levels:* "Consumers in some areas do not expect anything close to the level of service American shoppers demand." This can be a real point of distinction¹³

In addition to these factors, Canadians wanting to expand into the United States need to recognize other issues:

Marketing support often costs about twice as much (as a percentage of sales) in the United States as it does in Canada. Retail consultant Wendy Evans has noted that advertising to sales ratios for U.S. retailers are about 6 percent versus 3 percent for Canadian retailers.

Because the retail square footage per capita is much greater in the United States than in Canada, firms must have a very strong brand image to stand out in the clutter. Competition is very intense.

Having a Canadian lineage is typically not much of an advantage in the United States—although it can be very attractive in other parts of the world, as Fruits & Passions discovered when it went to France. CoolBrands noted the same thing and now puts a small Canadian flag on the front of its vending units.

To overcome these issues, retailers can consider using a cluster strategy. It can be very advantageous to increase a retailer's critical mass within a small geographic area. It is also very important to have specialist skills. Huge U.S. firms that move into Canada, for instance, come from a background of intense specialization because of their much greater size. Canadian

retailers are much smaller however (only three rank in the global top 100 retail firms: Loblaw's, Empire, and The Bay) and often take a more generalist approach.¹⁴

CANADIAN RETAILERS IN FOREIGN MARKETS

In general, Canadian firms have been slow to expand internationally, part because of their smaller size, as noted above, but also because other firms' expansions have often failed. Notable and high-profile Canadian efforts to expand into the United States, which eventually failed, include those of Canadian Tire, Coles, Colour Your World, Mark's Work Wearhouse, Second Cup, and Provigo.

Because the Canadian market is so small, on a relative basis, and the target of intense interest by U.S. firms, Canadian retailers are finding that their home market is under severe attack. If they want to prosper, they are going to have to more seriously consider international expansion.

Some examples of Canadian firms that have successfully entered foreign markets include the following:

- **La Senza:** This Montreal-based lingerie firm operates in 15 countries, with 85 stores in Europe and the Middle East alone.
- **Roots:** Although their U.S. expansion is going slower than planned, Roots has a strong foreign presence, with 12 stores in Taiwan and 68 in Korea.
- **Manchu WOK:** A veteran of foreign expansion, Manchu WOK has been in the United States for more than 20 years and have more than 100 outlets.
- **Groupe Jean Coutu:** This Montreal-based firm first moved into the United States in 1987, and in 1994 purchased Brooks Pharmacy. Most recently, it paid U.S.\$2.38 billion for more than 1500 Eckerd Drug Stores in the United States.
- **Alimentation Couche-Tarde:** This convenience store giant has been steadily moving into the northeastern United States. Besides its Canadian operations, Couche-Tarde owns 500 Mac's Convenience Stores in the United States.
- **CoolBrands:** As the world's leading purveyor of frozen yogurt, CoolBrands is very aggressive internationally. With more than 5000 franchised outlets, including the Yogen Früz, Swensen's Ice Cream, and Tropicana Smoothies banners, CoolBrands has a much larger foreign presence than a Canadian one.

In contrast to these firms, we consider in the following section foreign firms, primarily American-based, with at least some of their operations in Canada.

FOREIGN RETAILERS WITH A PRESENCE IN THE CANADIAN MARKET

Wal-Mart is the world's biggest retailer; therefore, it is no surprise that it would be a major presence in Canada. Until 1991, when it opened a store in Mexico, Wal-Mart operated only U.S. stores. By 2004, just 13 years later, it had 1300 stores in Argentina, Brazil, Canada, China, Germany, Great Britain, Korea, Japan, Mexico, and Puerto Rico. By 2004, Wal-Mart had reached annual sales of U.S.\$40.7 billion *outside* the United States. Wal-Mart came to Canada in 1994 when it bought 122 Woolco Stores. It now has 231 stores and 5 Sam's Clubs here.

According to its Web site (www.walmart.com): "Wal-Mart International has achieved global expansion through a combination of new-store construction and acquisitions. This strategy has given the company excellent market penetration and positioned it for future development. The company sees its development throughout North America, Latin America, Asia, and Europe as a good beginning with many promising areas for further expansion."

For nearly two decades, the majority of McDonald's new restaurants have opened outside the United States. Sales at the 17,000 outlets in 120 foreign nations account for more than one-half of total revenues. Besides Western Europe, McDonald's has outlets in Argentina, Australia, Brazil, Brunei, Canada, China, Czech Republic, Hungary, India, Japan, Malaysia, Mexico,

TABLE A3-3 Selected Ownership of Canadian Retailers by Foreign Firms

Canadian Retailer	Principal Business	Foreign Owner	Country of Owner
Eddie Bauer	Mail order and specialty stores	Otto Versand Gmbh	Germany
Radio Shack	Electronics	Circuit City	United States
Future Shop	Electronics	Best Buy Co.	United States
Thrifty's/Bluenotes	Causal Wear	American Eagle	United States
Great Atlantic & Pacific (A&P)	Supermarkets	Tengelmann	Germany
LensCrafters	Optical stores	Luxottica	Italy
Motel 6	Economy motels	Accor	France
7-Eleven	Convenience stores	Ito-Yokado	Japan
Gap, Banana Republic, and Old Navy	Causal Wear	Gap, Inc.	United States
Home Depot	Building Supplies	Home Depot	United States

New Zealand, Philippines, Russia, Turkey, Venezuela, and Yugoslavia. The restaurants in India are distinctive: “McDonald’s worked with its local Indian partners to adapt the menu to local tastes and needs. As the old advertising jingle goes, the ‘Maharaja Mac’ is made of ‘two all lamb patties, special sauce, lettuce, cheese, pickles, onions on a sesame seed bun.’ The famous sandwich’s main ingredient, beef, was replaced out of respect for the local Hindu population of India.”¹⁵ In Canada, McDonald’s opened its first outlet in Richmond, British Columbia, in 1967. This was its first foreign expansion. By 2004, there were more than 1300 McDonald’s Restaurants in Canada.

Ikea (www.ikea.com) is a Swedish-based home-furnishings retailer with stores in 35 countries. In Canada, Ikea has 11 stores in Boucherville, Burlington, Calgary, Coquitlam, Edmonton, Etobicoke, Montreal, North York, Ottawa, Richmond, and Vaughan. The firm offers durable, stylish, ready-to-assemble furniture at low prices. Stores are huge, have enormous selections, include a playroom for children, and have other amenities. Today, Ikea generates 93 percent of its sales from international operations, and 13 percent of total company sales (more than \$1 billion per year) are from its U.S. stores.

Body Shop International (www.the-body-shop.com) is a British-based chain that sells natural cosmetics and lotions that “cleanse, beautify, and soothe the human form.” There are 1900 Body Shop stores in 50 countries, including Canada. The firm has more than 111 stores in Canada, with more than \$130 million in sales. The first store was opened in 1980. In 2004, Body Shop Canada was sold to Body Shop International.

Table A3-3 shows some examples of Canadian-based retailers owned by foreign firms.

1: ROBERT SIMMONDS INC. FOCUSES ON CUSTOMER SERVICE

Paul Simmonds and wife Linda Mayhew own Robert Simmonds Inc. (www.robertsimmonds.ca). They attribute much of their success to a focus on customer service. Located in Fredericton, NB, a city with a population of almost 48,000 and access to about 81,000 people in the greater Fredericton area, Robert Simmonds Inc. operates as one standalone high fashion clothing shop in the downtown area. The store's product mix of high quality designer clothing, footwear, and accessories has been extensively researched to suit the target market of upscale professional men and women.

In addition to facing some local competition, Paul and Linda are also aware of the increased competition they face from larger shopping districts—such as those in Toronto, Ottawa, and Montreal. The owners claim their point of differentiation comes from their exceptional level of customer service and are thus able to compete with larger chains and larger shopping districts.

A typical visit to Robert Simmonds Inc. would involve a cheerful “hello” from one of the five full- or part-time staff (including a tailor) and refreshments being served while browsing. It is not unusual for staff to send thank-you notes and birthday cards to their customers and the store often hosts “after-hours” special events, including wine-tasting and shopping parties. As an additional service to their clients, Paul and Linda do not hesitate to send merchandise to any out-of-town shoppers and will also e-mail pictures of new styles to aid in their customer's purchase selection.

The store is located in a busy downtown location with metered and limited parking, and the owners recognize the challenge for some shoppers. To address the issue, they routinely offer to pay any parking tickets that a customer may incur while shopping in the store. The store also uses a customer relationship management system, which enables the owners to track every customer who makes a purchase in this store. This database includes the client's contact information and shopping preferences, which in turn provides valuable information to the owners pertaining to how they will target and serve those customers better.

Robert Simmonds Inc. appears to have found success as a high-end fashion retailer in Atlantic Canada. The owners believe their focus on customer service and appropriate merchandise selection for their target customer has greatly influenced the number of customers who return to their store time and again.

1st pass Proofed Short Cases still to come

customer service that Robert Simmonds Inc. could achieve? Please explain. Use your guide to classify each of Robert Simmonds Inc.'s offerings. Does the store use any patronage

3. If Robert Simmonds Inc. has had such success focusing on customer service, does this mean that it should be considered more important than other offerings such as selection or price?

The material for this case is drawn from John Schofield, “Fredericton Clothier Creates Pattern For Success,” *Canadian Retailer*; and Joan A. Pajunen, “Keep Them Coming Back,” *Canadian Retailer*.

2: CANADIAN LOYALTY PROGRAMS MOVE TO A COALITION MODEL

In the highly competitive world of retailing in Canada today, many retailers are offering various types of loyalty programs in an effort to retain customers and increase their spending. Interestingly, coalition model programs are gaining in popularity in Canada. Whereas in the United States and Mexico, proprietary programs are the norm, Canadian and other international retailers are combining forces with other manufacturers, loyalty program operators and noncompeting retailers to offer increased value to consumers and fend off some consumer loyalty card fatigue. Of these coalition programs, AirMiles (www.airmiles.ca) often quickly comes to mind given that it began as a coalition model and a majority of Canadians are members. However, two proprietary models have recently made the transition to coalition programs and should also be considered—they are Hbc Rewards and Aeroplan.

In 2001, the Hudson's Bay Company created a new loyalty program called Hbc Rewards. Evolving from the success of the company's Zellers Club Z program, Hbc rebranded the program and rolled it out to each of its The Bay, Zellers, Home Outfitters, and DealsOutlet.ca divisions. Initially an Hbc proprietary program, it was not long before the company transitioned to a partnership model to allow customers more choice. Eventually the program grew to include a CIBC Hbc Rewards Visa card (which earns bonus points when used at an Hbc division) and a partnership with AirMiles wherein AirMiles cardholders are given the option to purchase AirMiles with their Hbc points at a rate of 2000 points for one AirMile. Hbc Rewards cardholders are separated into two tiers: regular customers, and gold members, who accumulate

a minimum of 75,000 points within a year. The program was rewarded by earning bonus points on purchases. The true coalition model then resulted in Aeroplan partnering with a variety of other service providers, such as Esso, Hbc Telecommunications, Dollar Rent-a-Car, AOL, CIBC Hbc, Travelodge, Thriftlodge, and Hbc Dining Rewards and Hotels) that allow customers to accumulate points by using their Hbc Rewards card when they visit one of their locations.

Aeroplan was once simply an Air Canada-operated frequent flyer program, but today the program (estimated to be worth \$2 billion) has undertaken some creative partnerships, the first of which was with Future Shop. The pilot program that allowed customers to earn Aeroplan miles at the retail level was not without its problems, however. Aeroplan's vice-president of marketing, Paul Gilbert, explains, "We discovered that our members were not noticing our identity program and our brand within the store. One of the things that became clear to us was that our brand was created to fit within the Air Canada environment . . . but it really had never been conceived as a retail-focused brand." After investing over \$1 million in research to learn where Aeroplan members would like to earn rewards and build brand image, the company expanded its program to include such partners as Bell, Choice Hotels, American Express, CIBC, Visa, MasterCard, MBNA Bank of America, and Esso. Interestingly, Gilbert notes that the Esso partnership "has been particularly beneficial for the brand."

Questions

1. What are the pros and cons for other companies to become involved in a coalition loyalty program?
2. How should a loyalty program such as Aeroplan or Hbc Rewards choose its partners?
3. What are the best uses of information gathered in a customer loyalty program?
4. Do you think it is possible for a small retailer to develop an effective customer loyalty program?

The material in this case is drawn from Michelle Halpern, "Elevating a Points Plan," *Marketing*, April 11, 2005, Vol. 110, Iss.13, p. 7; Hudson's Bay Company Web site (www.hbc.ca); and Brent Jang, "Aeroplan Valued at \$2 Billion: IPO to Total \$287.5 Million; Air Canada's Parent Bets Value Will Rise Before Next Sale," *The Globe and Mail*, June 23, 2005, p. B3.

3: MUSIC RETAILERS UPSET WITH CHANGING NATURE OF DISTRIBUTION ARRANGEMENTS

Record labels have traditionally used intensive distribution strategies to get their product to the consumer. Record stores, department stores, discounters, and, more recently, electronics stores, specialty stores, drug stores, and convenience stores have carried varied selections of CD recordings. But, the trend of late has been for labels to enter short-term ex-

1st pass Proofed Short Cases still to come

clusive contracts, and a number of the retailers with which such partnerships are not happy. The first exclusive arrangements to spark controversy were the Rolling Stones' October 2003 release of a new DVD collection. On November 11, 2003, Best Buy (which also owns Future Shop) entered into a six-week exclusive arrangement to sell the new DVD, whose sales were expected to reach at least the ten-times platinum mark. Upset about the arrangement, Canadian music retailers including HMV, MusicWorld, and Sunrise Records began a boycott of all Stones product and were later joined by other notable U.S.-based retailers like Circuit City. HMV even went so far as to file a complaint with the Competition Bureau alleging that such exclusive relationships were in violation of the *Competition Act*. However, the Bureau ruled that the "exclusivity agreement regarding one DVD set released by a single artist over a limited period of time does not constitute an anti-competitive practice." Rolling Stones promoter Michael Cohl defended the arrangement by arguing that the DVD release would be treated much more prominently with Best Buy because of its marketing clout, its interest in treating it "the way it deserves to be treated: like a major event," and its ability to sell the DVD collection at a much lower price point than other retailers.

By 2005, exclusivity arrangements between retailers and music artists had become more common practice but still evoked protests from excluded retailers, as was the case with Alanis Morissette's acoustic re-release of *Jagged Little Pill* in June of that year. The original *Jagged Little Pill* album sold more than 30 million copies. What makes this exclusive distribution deal unique is that the arrangement was not with an outlet traditionally associated with music sales: Morissette's latest release would be sold solely at Starbucks locations for the first six weeks of availability and her Canadian label, Warner Music Canada, had no part in the deal.

The characteristics of this deal have prompted outrage and boycotts among music retailers. In particular, Sunrise Records executive Tim Baker called the action a betrayal, stating, "We're upset about the fact that [the album is] being made available on an exclusive basis to a chain of stores that doesn't really sell music and we've been selling Alanis Morissette records for almost 20 years." Based on the feedback of HMV Canada consumers on HMV's Web site, company president Humphrey Kadaner also initiated an indefinite boycott of all Morissette's product. In response to the Morissette/Starbucks deal, Best Buy maintains that the company sees nothing wrong with exclusivity arrangements and is confident that there will be other future opportunities.

Questions

1. As stated in Chapter 1 of this text, "channel relations are smoothest if exclusive distribution is involved." Why does this statement appear untrue in this instance?

2. What do you think are the motivations involved with these exclusive arrangements?
3. What do you think are the motivations for the party?
4. Consider the possible implications to the retailers granted exclusive rights, artists (e.g., boycotting retailers) and conclude whether an exclusive deal is appropriate.

The material in this case is drawn from Dan Bell, "Best Buy Cuts Exclusive Deal for Stones' *Four Flicks* DVD," www.cdfreaks.com, October 16, 2003, accessed January 8, 2004; Karen Bliss, "Outlets Pull Alanis CD," www.rollingstone.com, June 15, 2005, accessed July 22, 2005; CBC, "Rolling Stones' Deal With Best Buy Gets Nod From Competition Bureau," www.cbc.ca, December 18, 2003, accessed January 8, 2004; CBC Arts, "HMV Pulls Alanis Product to Protest Starbucks Deal," www.cbc.ca, June 14, 2005, accessed July 21, 2005; CBC Arts, "Coffee, Tea or Alanis? Starbucks Deal Riles Retailer," www.cbc.ca, June 7, 2005, accessed July 22, 2005; and Chartattack.com Staff, "Rolling Stones Scuffle With Canadian Retailers," *Chart Communications*, www.chartattack.com, October 29, 2003.

4: THE POSITIONING APPROACH OF HIGH-END JEWELLERY STORES

Some industry experts strongly believe that retailers have contributed to an increasing confusion in the positioning of jewellery: "The mass merchants have gone class by making diamonds more affordable to all levels of the income stream, and the upscale merchants have reached down to the masses a bit."

The blurred positioning of diamond jewellery can be seen by reviewing the sales approaches of retail firms as disparate as Wal-Mart (www.walmart.com), department stores, Costco (www.costco.ca) and Tiffany (www.tiffany.com). Wal-Mart, a chain more associated in buyers' minds with the sale of inexpensive housewares and clothing, is now the leading seller of diamonds costing about \$150 or so. Department stores and wholesalers like Costco also tend to sell a wide range of popularly priced jewellery to a broad-based market. For instance, jewellery at Costco ranges from a few hundred dollars to a premium of \$25,000 for a 3.14 carat diamond ring. Tiffany has recently broadened its appeal (and moved somewhat downscale) by opening more stores at mall locations, introducing a Web site, and promoting items ranging in price from \$200 to \$100,000. Why? A Tiffany spokesperson says, "We believe advertising a wide range of price points helps build long-term relationships with people, including those who merely aspire to be Tiffany customers." In response, a critic of Tiffany's mass market shift asserts that "by making itself accessible to the lower end, Tiffany has watered down what was once a truly exclusive brand—and there's no going back."

Unlike other luxury goods retailers that have responded to increased competition and a fragile economy with price reductions, high-end jewellery stores have not used a deep discounting strategy. They recognize that they cannot win price wars against discounters or department stores. These jewellers also fear that price reductions might "tarnish

1st pass Proofed Short Cases still to come

image." They agree with retail analysts discounting "becomes a downward spiral: stores start discounting, people wait for luxury jewellery, some of what you're paying, and part of the exclusivity is bolice point. Discounting is completely inconsistent with maintaining that image."

Instead of following the Tiffany strategy, some high-end jewellers have modified their advertising plans to better target their promotions through media with an affluent readership. For some, this has meant using direct mail, mail-order catalogues, and database marketing more intensively. The House of Harry Winston, a two-store chain, draws attention to its merchandise by getting celebrities to wear its jewellery at major televised awards shows. It then faxes and e-mails its best prospects to tell them which items are worn by specific celebrities.

As one senior retail advertising executive states, "I think that quality is more important than ever right now. I think cachet is just as important, but cachet because people believe there's value there, not because there's just a name." There is some statistical evidence of this position. In a recent online survey of 25- to 54-year-olds with household incomes of more than \$100,000 a year, the two leading purchase motivators were (1) to buy "things I know will last" and (2) to buy things "for my well-being."

There are still limits in price setting to the wealthy. The House of Harry Winston's global marketing director recently reported that it must be concerned with the "anxiety threshold" that customers encounter when shopping for jewellery priced between \$6,500 and \$10 million. Despite the firm's appeal to people with a net worth exceeding \$2 million, some of these shoppers "quiver with fear" as they enter a store.

Questions

1. Develop a positioning chart for jewellery. Include Wal-Mart, Tiffany, and department stores with jewellery departments on the chart. Explain your choice of axes, as well as each store's positioning.
2. Do you agree that the events described in this case are contributing to the blurred positioning of jewellery retailing? Explain your answer and its ramifications.
3. What are the pros and cons of Tiffany's selling items priced as low as \$200?
4. As a jewellery shopper, how would you expect the total retail experience to differ in Wal-Mart, department stores, and high-end retailers?

The material in this case is drawn from Kate Fitzgerald, "Jewelers Out to Protect Cachet," *Advertising Age*, March 11, 2002, p. S-2.

4: IS THE SEARS-LANDS' END MERGER A MATCH MADE IN HEAVEN?

In May 2002, Sears, Roebuck and Company (www.sears.com) announced that it would buy Lands' End

(www.landsend.com), the mail-order company, paid \$1.9 billion for U.S.\$1.9 billion in cash. Although Lands' End is a wholly owned subsidiary of Sears, the two companies remain at its Dodgeville, Wisconsin headquarters. The two companies are to operate as separate entities. Lands' End merchandise is to be sold at Sears stores and each of the companies' Web sites is to have links to the other retailer.

One of the main goals of the merger is for the two firms to have a fully integrated, multichannel strategy. Lands' End merchandise ordered on the Web could be delivered to a local Sears store for customer pickup, and Sears stores will accept Lands' End returns. Retail analysts view the purchase as advantageous to both firms: "This is a great brand name for Sears to associate with. One of their [Sears'] challenges is to have names that the consumer recognizes and associates with Sears."

The acquisition gives Sears access to Lands' End's products, as well as access to Lands' End's 30 million household database. Sears will position the Lands' End line as its top pricing point. Sears' chairperson plans for 15 to 20 percent of all apparel at Sears to carry the Lands' End label. Sears is banking on Lands' End to build up Sears' apparel business. Before the acquisition, about 70 percent of consumers who shopped for appliances at Sears shopped at other stores for apparel. Sears hopes that the Lands' End acquisition will result in shoppers' buying appliances and apparel on the same trip. In addition, Sears will benefit from Lands' End's expertise in managing a Web- and catalogue-based business. Lands' End executives will now manage these business units for Sears.

The acquisition also provides key benefits for Lands' End. Before the acquisition, Lands' End had only 16 discount outlets and one test store. After the acquisition,

1st pass Proofed Short Cases still to come

lands are to be in Sears' 870 retail stores, as well as on the Lands' End Web site. (Sears.com had three times the traffic to the Lands' End Web site before the merger.) Lands' End's Web business. Sears also plans to send out credit card statements monthly; this is to promote a special Lands' End offer.

Some analysts who question the merger are concerned about how Lands' End's customers will react to seeing Lands' End merchandise in Sears stores. They believe that Lands' End's image could easily be tarnished if Sears does not manage the brand effectively. For example, Sears must be careful not to reduce Lands' End's quality as a means of becoming more price competitive. Lands' End's smaller suppliers may also be incapable of expanding their current production quantities. Finally, Lands' End's higher price levels may alienate Sears' current shoppers, and its younger, more clothes-conscious shoppers may decide not to shop at Sears. As one analyst remarked, "I don't think Lands' End unto itself is the final answer to Sears' problems in apparel."

Questions

1. What do you think are pros and cons of the acquisition from Sears' perspective? Why?
2. What do you think are pros and cons of the acquisition from Lands' End's perspective? Why?
3. What impact do you think the acquisition will have on the positioning of Sears and Lands' End? Why?
4. How would you integrate the management and employees of the two firms to best attain the goals noted in the case?

The material in this case is drawn from Maryanne Murray Buechner, "Recharging Sears," *Time*, May 27, 2002, pp. 46–47; Lorrie Grant and Jon Swartz, "A Really Good Fit"; Sears Buys Lands' End to Gussy Up Image," *USA Today*, May 14, 2002, p. B1; and Constance L. Hays, "Sears to Buy Lands' End in a \$1.9 Billion Deal," *New York Times*, May 14, 2002, p. A1.

Comp Cases to come soon

(catch: leave 3 pages for Part One cases)

Comp Cases to come soon

(catch: leave 3 pages for Part One cases)

Comp Cases to come soon

(catch: leave 3 pages for Part One cases)