Types of Retailers

EXECUTIVE BRIEFING

Debbie Ferree, Vice Chairman and Chief Merchant, DSW Inc.

Math was always my favorite subject in school and came quite naturally to me, so it was no surprise that I entered college with the goal to become a college math professor, but my passion for fashion and love for business and retail caused me to change my career aspirations and transfer to the college of business.

Before joining DSW (Designer Shoe Warehouse), I worked in senior management positions for a variety of retailers, which gave me broad experience in different channels of distribution and business models: May Company and Burdines/Federated Department Stores—department stores; Ross Dress for Less—discount stores; and Harris Company—specialty retail.

In 1997, I joined DSW, a true off-price retailer, offering customers an assortment of end-of-season, closeout merchandise at deeply discounted prices. The department store landscape was changing rapidly and dramatically, where point-of-service discounting was the norm and customers were confused about the price they paid for a product. This created an opportunity in DSW to architect a new "hybrid" business model that would provide a very different shopping experience for the customer: an assortment of current, on-trend, in-season, fashion merchandise from well-known national brands at fair, everyday value (EDV) in an open-sell, attractive environment. This would define a new direction for the future in retail. In 2004, I was promoted to president and chief merchandising officer of DSW and we took the company public in 2005.

To implement this new concept, we developed strategic partnerships with the leading designer brands in footwear. These vendors were focused on selling their brands through the department store channel and were initially skeptical about the new business model. The new model had many advantages and financial benefits: when they sold to DSW, there would be no extra charges such as advertising allowances or vendor chargebacks, and no renegotiations on prices at the end of the season or merchandise returns. Through collaboration and the development of financial and strategic plans that would support mutually profitable growth for both parties, we aligned on a plan that today generates over $2 billion in sales revenue in over 375 stores, an e-commerce business, and provides a long-term plan for continued growth.

The pillars of our success are a breathtaking assortment of on-trend merchandise, simple convenience, and irresistible value. We are using social media to create a community of shoe lovers who are loyal to our offerings, and regularly inform their friends about the new additions to our assortment and about their shopping experience in our stores

CHAPTER 2

LEARNING OBJECTIVES

LO1 List the different characteristics that define retailers.

LO2 Categorize the various types of food retailers.

LO3 Identify the various types of general merchandise retailers.

LO4 Explain the differences between service and merchandise retailers.

LO5 Illustrate the types of ownership for retail firms.

and on our website. Our fan page is a place where shoe lovers can hang out and talk about shoes. We stimulate interaction between our over two million followers by presenting what our followers think of new styles, thanking them for their suggestions, answering their questions promptly, and running fun trivia contests with free pairs of shoes as prizes.

DSW's aspiration is to become "America's Favorite Place for Shoes" and "America's Favorite Place to Work." We have a strong culture that incorporates our core values—humility, accountability, collaboration, and passion—into a fun environment that stretches talent, supports individual development, and provides a rewarding career experience!

You want to have a good cup of coffee in the morning, not instant, but you don't want to bother with grinding coffee beans, boiling water, pouring it through ground coffee in a filter, and waiting. Think of all the different retailers that could help you satisfy this need. You could get your cup of brewed coffee from the drive-through window at the local Starbucks, or you could decide to buy an automatic coffeemaker with a timer so that your coffee will be ready when you wake up. You could purchase the coffeemaker at a discount store like Walmart or Target, a department store such as Macy's, a drugstore like CVS, or a category specialist such as Best Buy. If you want to buy the coffeemaker without taking the time to visit a store, you could visit www.thefind.com, search for "coffee and espresso maker," and review the details about 83,392 products sold by 5,485 retailers, ranging from Bed Bath & Beyond to Sur La Table to Newegg.

All these retailers are competing against one another to satisfy your need for a hassle-free, good cup of coffee. Many are selling the same brands, but they offer different services, prices, environments, and convenience. For example, if you want to

buy a low-priced, basic coffeemaker, you can go to a discount store. But if you are interested in a coffeemaker with more features and want to have someone explain the different features, you can visit a department store or a category specialist.

To develop and implement a retail strategy, retailers need to understand the nature of competition in the retail marketplace. This chapter describes the different types of retailers and how they compete against one another by offering different benefits to consumers. These benefits are reflected in the nature of the retail mixes used by the retailers to satisfy customer needs: the types of merchandise and services offered, the degree to which their offerings emphasize services versus merchandise, and the prices charged.

RETAILER CHARACTERISTICS

LO1

List the different characteristics that define retailers.

The 1.1 million[1] retailers in the United States range from individual street vendors selling hot dogs to multichannel retailers that offer thousands of products in their stores and through catalog and Internet channels. The different types of retailers offer unique benefits. The type of retailer a consumer chooses to patronize depends on the benefits the consumer is seeking. For example, if you are shopping for a gift, you might value the convenience of buying a shirt from a retailer's Internet channel so the retailer will ship it to a friend in another city. Alternatively, you might prefer to buy a shirt from a local store when making a purchase for yourself so that you can try it on. You might go to a discount store to buy an inexpensive shirt for a camping trip or a sporting goods specialty store to buy a shirt with the insignia of your favorite football team.

All these retailers survive and prosper because they satisfy a group of consumers' needs more effectively than their competitors, and thus consumers patronize different retail types when they have different needs. As consumer needs and competition change, new retail formats are created and existing formats evolve.

Many retailers also are broadening their assortments, which means that their offerings overlap and competition increases. At eBay Motors, for example, consumers can buy cars and motorcycles from thousands of individual sellers and established dealers. The eBay sellers compete with traditional automobile dealers that sell cars and motorcycles through conventional dealerships. In another example, office supply stores compete with warehouse clubs, supercenters, supermarkets, and convenience stores because they sell many of the same products.

The most basic characteristic used to describe the different types of retailers is their retail mix, or the elements retailers use to satisfy their customers' needs. Four elements of the retail mix are particularly useful for classifying retailers: the type of merchandise and/or services offered, the variety and assortment of merchandise offered, the level of customer service, and the price of the merchandise.

Type of Merchandise

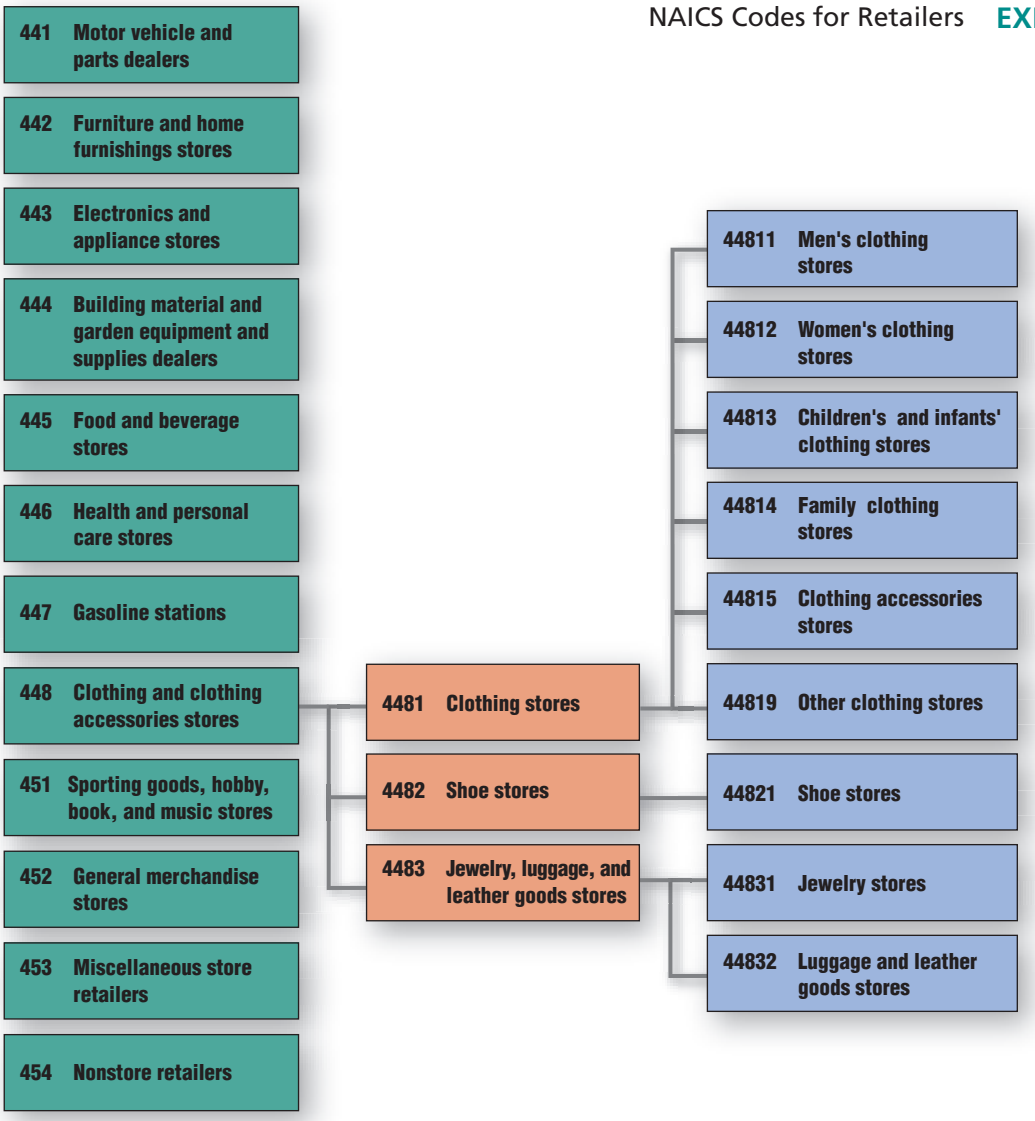
The United States, Canada, and Mexico have developed a classification scheme, called the **North American Industry Classification System (NAICS),** to collect data on business activity in each country. Every business is assigned a hierarchical, six-digit code based on the type of products and services it sells. The first two digits identify the firm's business sector, and the remaining four digits identify various subsectors.

REFACT

Nearly 19 percent of all U.S. retail sales are for motor vehicles and parts (441); department stores (4521) account for a little more than 3 percent.[2]

The classifications for retailers selling merchandise, based largely on the type of merchandise sold, are illustrated in Exhibit 2–1. Merchandise retailers are in sectors 44 and 45. The next three digits provide a finer classification of merchandise retailers. For example, retailers selling clothing and clothing accessories are classified as 448, clothing stores as 4481, and men's clothing stores as 44811. The sixth digit, not illustrated in Exhibit 2–1, captures differences between the North American countries using the classification scheme.

NAICS Codes for Retailers **EXHIBIT 2–1**



SOURCE: "North American Industry Classification System (NAICS)," U.S. Census Bureau, www.census.gov/epcd/www/naics.html.

Most services retailers are classified in sectors 71 (arts, entertainment, and recreation) and 72 (accommodation and food services). For example, food services and drinking places are in category 722, which is subdivided into full-service restaurants (7221) and limited-service eating places like fast-food restaurants (7222).

Variety and Assortment

Retailers can offer the same merchandise but differ in the variety and assortment of merchandise offered. **Variety** is the number of merchandise categories a retailer offers. **Assortment** is the number of different items offered in a merchandise category. Variety is often referred to as the **breadth of merchandise,** and assortment is referred to as the **depth of merchandise.** Each different item of merchandise is called a **stock-keeping unit (SKU).** Some examples of SKUs include an original scent, 33-ounce box of Tide laundry detergent with bleach or a blue, long-sleeve, button-down-collar Ralph Lauren shirt, size medium.

Warehouse clubs, discount stores, and toy stores all sell toys, but warehouse clubs and full-line discount stores sell many other categories of merchandise in addition to toys (i.e., they have greater variety). Stores specializing in toys stock

EXHIBIT 2–2 Variety and Assortment of Bicycles in Different Retail Outlets

	Adult Road	Adult Hybrid	Mountain	Child
Wheelworks	Bianci, Colnago, Peter Mooney, Serotta, Trek 150 SKUs $419.99–$7,999.99	Bianchi, Specialized, Trek 96 SKUs $349.99–$1,899.99	Salsa, Santa Cruz, Specialized, Trek 122 SKUs $299.99–$1,899.99	Electra, Gary Fisher, Haro, Kettler, Trek 56 SKUs $159.99–$429.99
Toys R Us	Mobo Triton Pro 3 SKUs $299.99–$359.99	—	Cycle Force, Huffy, Schwinn 4 SKUs $79.98–$135.99	Avigo, Cycle Force, Huffy, Mongoose, Pacific Cycle 228 SKUs $45.99–$499.99
Walmart	Cycle Force, Genesis, Kent, Mongoose 26 SKUs $99.97–$499.00	Cycle Force, Genesis, Schwinn, Tour de France 9 SKUs $179.00–$349.00	Havoc, Genesis, Schwinn, NEXT, Roadmaster 63 SKUs $88.00–$379.00	Huffy, Koxx, Micargi, Schwinn, Tour De France 195 SKUs $28.13–$675.00

more types of toys (more SKUs) and thus offer a greater assortment (i.e., greater depth in the form of more models, sizes, and brands) than the full-line discount stores or warehouse clubs.

Variety and assortment can also be applied to a specific merchandise category rather than an entire store. Exhibit 2–2 shows the breadth and depth of bicycles, as well as the different price points and brands carried by three very different types of stores: Wheelworks, a bicycle specialty retailer with one store in Belmont, Massachusetts; Toys R Us, a toy big-box category killer; and Walmart, a full-line discount store. Toys R Us has a large variety of merchandise besides bicycles, but its bicycle assortment is narrow. Wheelworks has the smallest variety because it carries only bicycles, parts, and accessories; but its assortment is very deep. Walmart, trying to cater to a wide target market, has a moderate variety and assortment.

One of the most interesting retailers that sells an amazing variety and assortment of merchandise is Amazon, which is highlighted in Retailing View 2.1.

How does Wheelworks' variety and assortment compare with Toys R Us and Walmart?

Why do the three retailers' assortments differ from each other?

Services Offered

Retailers also differ in the services they offer customers. Customers expect almost all retailers to provide certain services: displaying merchandise, accepting credit cards, providing parking, and being open at convenient hours. Some retailers charge customers for other services, such as home delivery and gift wrapping. However, retailers may differ on other services. For example, Wheelworks offers assistance in selecting the appropriate bicycle, as well as repairs. Walmart does not provide these services.

Prices and the Cost of Offering Breadth and Depth of Merchandise and Services

Stocking a deep and broad assortment, like the one Wheelworks offers in bicycles, is appealing to customers but costly for retailers. When a retailer offers many SKUs, its inventory investment increases because the retailer must have backup stock for each and every SKU.

Similarly, services attract customers to the retailer, but they also are costly. More staff must be paid to provide information and assist customers, alter products to meet customers' needs, and demonstrate merchandise. Child care facilities, restrooms, dressing rooms, and coat check rooms take up valuable store space that could be used to stock and display merchandise. Offering delayed billing, credit, or installment payments requires a financial investment that could be otherwise used to buy more merchandise.

To make a profit, retailers that offer broader variety, deeper assortments, and/or additional services need to charge higher prices. For example, department stores have higher prices than discount stores partially because of their higher costs. Department stores stock more fashionable merchandise and have to reduce prices when they make a mistake in guessing what the popular styles will be. They also provide more personal sales service and have more expensive mall locations. In contrast, discount stores appeal to customers who are looking for lower prices. These consumers are less interested in the costly services provided by department stores. Thus, a critical retail decision involves the trade-off between the costs and benefits of maintaining additional inventory or providing additional services. Chapters 6 and 12 address the considerations required in making this trade-off. In the next sections, we discuss the different types of food and general merchandise retailers.

2.1 RETAILING VIEW Amazon: The Jack of All (Retail) Trades and Master of Many

When it started out in 1994, Amazon simply promised more books than anyone else. It took a few years for the online retailer to grow large enough to threaten the big names—Borders, Barnes & Noble, and so on. But today, its competitive threat spreads far beyond bookstores to take on virtually any type of retailer you might find.

Consider, for example, evidence showing that Walmart is losing sales to Amazon. Now that Amazon stocks items such as baby formula, clothing, and electronic goods, often at lower prices than even the low-price master, people see little reason to fight with traffic or search for parking at the world's largest retailer. Instead, they sit at home and wait for the items to arrive. Won't be home during the day to receive your delivery? No problem—Amazon is testing an option to ship deliveries to local 7-Eleven convenience stores, then e-mail customers with bar codes that identify them, and their package, to the convenience store clerks.

As we know though, retail isn't simply about physical goods. It also includes services, and on that front, Amazon is also taking on a wide spread of competitors. It offers textbook rentals through its Kindle products to college students. The Kindle Lending Library allows Amazon Prime members to receive free books each month. It provides authors an easy route to self-publishing their work. Its cloud computing services are free for the first year—and its cloud offers enough storage for every person on the planet to store 82 books. With the Amazon Flow Powered app, shoppers in stores also can scan barcodes and find Amazon's (usually competitive) price immediately. And of course, for Prime customers, Amazon always offers free shipping.

But its influence is not all threat. For small-business owners, the opportunity to sell through Amazon provides unparalleled exposure. Amazon actively seeks small retailers with interesting products but insufficient resources to distribute those offerings widely. To them, Amazon is less a threat and more a golden opportunity.

Amazon offers the largest variety and assortment of any retailer in the world.

Sources: Chantal Tode, "Amazon Makes Play for Greater Influence Over In-Store Shoppers," *Mobile Commerce Daily*, July 3, 2012; Brad Tuttle, "Today's Value Shopper Heads to Amazon, Not Walmart," *Time*, April 10, 2012; Greg Bensinger, "Amazon's Tough Call," *The Wall Street Journal*, July 11, 2012; Molly McHugh, "Saving Cash on College Textbooks," *Digital Trends*, July 18, 2011; Maggie Shader, "Amazon Tests After-Hours Package Pickup at 7-Eleven Locations," *Consumer Reports*, September 8, 2011; James Kendrick, "Amazon Debits Kindle Owner Lending Library," *ZDNet*, November 3, 2011; Vanchi Govind, "Amazon.com Offers Cloud Computing Services for Free," *InfoTech*, November 3, 2010; Jeffrey A. Trachtenberg, "Secret of Self-Publishing: Success," *The Wall Street Journal*, October 31, 2011; and Zoe Fox, "How Amazon Became the World's Largest Retailer," *Mashable*, November 17, 2011.

DISCUSSION QUESTIONS

What categories is Amazon competing in? Which retailers are they competing against?

FOOD RETAILERS

LO2

Categorize the various types of food retailers.

The food retailing landscape is changing dramatically. Twenty years ago, consumers purchased food primarily at conventional supermarkets. Now conventional supermarkets only account for slightly more than 60 percent of food sales (not including restaurants).[3] Not only do full-line discount stores like Walmart and Target now offer a full assortment of grocery items in their superstores, but traditional supermarkets also are carrying more nonfood items. Many supermarkets

EXHIBIT 2–3
Sales and Growth Rate for Retail Sectors

	Estimated Sales, 2013 ($ millions)	Estimated Sales Growth 2008–2013 (%)
Food Retailers		
Conventional supermarkets	$622,896	3.3
Supercenters	354,905	7.1
Warehouse clubs	159,075	6.7
Convenience stores	748,186	3.0
General Merchandise Retailers		
Department stores	73,291	−0.9
Apparel and accessory specialty stores	210,236	4.5
Jewelry stores	36,848	3.4
Shoe stores	29,606	1.8
Furniture stores	66,262	2.2
Home furnishing stores	59,465	2.8
Office supply stores	26,404	2.2
Sporting goods stores	49,717	5.3
Bookstores	19,101	2.1
Building material, hardware, and garden supply stores	393,254	3.6
Consumer electronics and appliance stores	141,800	4.4
Drugstores	250,172	4.2
Full-line discount stores	126,385	0.0
Extreme-value stores	52,454	3.1
Nonstore Retailers		
Nonstore retailing	340,421	9.0
E-commerce	282,055	15.0

Sources: *Economic Forecast: Outlook to 2013 Food, Drug, Mass* (Columbus, OH: Retail Forward, November 2008); *Economic Forecast: Outlook to 2013 Homegoods* (Columbus, OH.: Retail Forward, November 2008); *Economic Forecast: Outlook to 2013 Softgoods* (Columbus, OH: Retail Forward, November 2008).

offer pharmacies, health care clinics, banks, and cafés. Exhibit 2–3 contains information about the size and growth rates for each of these retail sectors.

The world's largest food retailer, Walmart, attains more than $443 billion in sales of supermarket-type merchandise. On this measure, it is followed by Carrefour (France), Tesco (United Kingdom), Metro Group (Germany), Schwartz Group (Germany), and Kroger (United States).[4] In North America specifically, the largest supermarket chains in order are Walmart, Kroger, Costco, Target, Safeway, Supervalu, Loblaw, Publix, and Ahold US.[5]

Kroger is the largest supermarket chain in the United States.

EXHIBIT 2–4
Characteristics of Food Retailers

	Conventional Supermarket	Limited-Assortment Supermarket	Supercenter	Warehouse Club	Convenience Store
Percentage food	70–80	80–90	30–40	60	90
Size (000 sq. ft.)	35–40	7–10	160–200	100–150	3–5
SKUs (000)	30–40	1–1.5	100–150	20	2–3
Variety	Average	Narrow	Broad	Broad	Narrow
Assortment	Average	Shallow	Deep	Shallow	Shallow
Ambience	Pleasant	Minimal	Average	Minimal	Average
Service	Modest	Limited	Limited	Limited	Limited
Prices	Average	Lowest	Low	Low	High
Gross margin (%)	20–22	10–12	15–18	12–15	25–30

REFACT
The first self-service grocery store was opened in 1930 by King Kullen in Jamaica, New York.[6]

Despite their similarly large sizes, most of Walmart's food sales are generated from its supercenter format, whereas Carrefour garners most of its sales using the hypermarket format that it developed. The remaining larger food retailers primarily sell through conventional supermarkets. Exhibit 2–4 shows the retail mixes for different types of food retailers.

Supermarkets

A **conventional supermarket** is a large, self-service retail food store offering groceries, meat, and produce, as well as some nonfood items, such as health and beauty aids and general merchandise.[7] Perishables, including meat, produce, baked goods, and dairy products, account for 30 percent of supermarket sales and typically have higher margins than packaged goods.[8]

REFACT
Shoppers spend an average of just under 13 minutes shopping for groceries on each trip, and half of that period is spent navigating the aisles or checking out.[9]

Whereas conventional supermarkets carry about 30,000 SKUs, **limited-assortment supermarkets,** or **extreme-value food retailers,** only stock about 1,500 SKUs.[10] The two largest limited-assortment supermarket chains in the United States are Save-A-Lot and ALDI.

Rather than carrying 20 brands of laundry detergent, limited-assortment supermarkets offer one or two brands and sizes, one of which is a store brand. Stores are designed to maximize efficiency and reduce costs. For example, merchandise is shipped in cartons on crates that can serve as displays so that no unloading is needed. Some costly services that consumers take for granted, such as free bags and paying with credit cards, are not provided. Stores are typically located in second- or third-tier shopping centers with low rents. By trimming costs, limited-assortment supermarkets can offer merchandise at prices 40 percent lower than those at conventional supermarkets.[11] These features have supported the substantial growth of such retailers, which appeal strongly to customers who are not loyal to national brands and more willing to try a store brand, especially if it means they pay lower prices.[12]

Trends in Supermarket Retailing Although conventional supermarkets still sell the majority of food merchandise, they are under substantial competitive pressure on multiple sides: from supercenters, warehouse clubs, extreme-value retailers, convenience stores, and even drug stores.[13] All these types of retailers have increased the amount of space they devote to consumables. Family Dollar, which previously offered only discounted store brands, has expanded its assortment by about 20 percent, to include national brands such as Pepsi.[14]

Because consumers typically make three trips a week to buy food, but less than one trip a week to buy nonfood items, these competing retailers typically offer food merchandise to build the traffic in their stores and increase the sales of more profitable nonfood merchandise. They also have superior operating efficiencies and bargaining power with vendors that enable them to achieve low costs and

offer low prices. These competing retailers have invested heavily in state-of-the-art supply chains, assortment planning, and pricing systems that reduce their inventories while increasing their sales and margins. These activities are discussed in more detail in Chapters 10 and 12.

To compete successfully against intrusions by other food retailing formats, conventional supermarkets are differentiating their offerings by (1) emphasizing fresh perishables, (2) targeting green and ethnic consumers, (3) providing better value with private-label merchandise, and (4) providing a better shopping experience.

REFACT

A recent survey found that one in three people have switched grocery stores. The top reasons for changing were as follows: 43 percent cited cost; 25 percent complained of long lines, poor selection, and low quality; 17% noted rude employees; and 14 percent disliked crowded stores.[15]

Fresh Merchandise Fresh-merchandise categories are located in the areas around the outer walls of a supermarket, known as the **"power perimeter,"** and include the dairy, bakery, meat, florist, produce, deli, and coffee bar. These departments attract consumers and are very profitable. Conventional supermarkets are building on their strength in these categories and devoting more space and attention to them. They are promoting fresh merchandise with cooking exhibitions and "action" stations, such as store-made sushi and freshly grilled meat. In response to this consumer desire for more and better fresh merchandise, food retailers such as Fresh Fare (Kroger) and Fresh Market are opening food stores focusing on the power perimeter merchandise.

Another example of the emphasis on "fresh" is the meal solutions offered to time-pressured consumers. A recent survey found that 64 percent of adult consumers have purchased ready-to-eat or heat-and-eat food from a grocery in the past month.[16] The choices in the stores are as varied as the stores themselves. Market District offers smoothies; Buehler's Fresh Food sells crab cakes and beef burgundy on a rotating "Dinner for 2" menu; Safeway's Lifestyle stores have sandwich and sushi stations. The ready-to-eat meals at a Publix store in Florida take up 4,500 square feet of space and include more than 80 entrees, such as cedar-plank salmon and Kung Pao scallops.[17]

REFACT

Almost 70 percent of U.S. shoppers bought something organic over a recent three-month period.[18]

Green Merchandise Conventional supermarkets are offering more fair trade, natural, organic, and locally sourced foods for the growing segment of consumers who are health- and environmentally conscious. **Fair trade** is the practice of purchasing from factories that pay workers a living wage, considerably more than the prevailing minimum wage, and offer other benefits such as onsite medical treatment. Organic food purchases have jumped in recent years, with sales increasing by nearly 20 percent annually. Consumers also are buying a wider range of organic products, including staple items such as milk, eggs, and vegetables, as well as more fun options, such as ice cream and hair care products.[19]

Traditional supermarket chains also are opening smaller-format stores such as GreenWise Market (Publix) targeting health-conscious consumers who patronize Whole Foods. In a related food retailing trend, they offer locally grown products, a trend brought about in response to environmental concerns and the increasing financial costs (e.g., fuel) of transporting food long distances. The **locavore movement** focuses on reducing the carbon footprint caused by the

Health-conscious and environmentally conscious consumers are demanding organic and locally produced foods from food retailers.

transportation of food throughout the world. Food miles are calculated using the distance that foods travel from the farm to the plate. Many Americans appreciate the idea of supporting local businesses, but they also want the variety of products they can find everyday in their grocery store. It is difficult to maintain a balance between buying locally and maintaining such variety.

Ethnic Merchandise Hispanics, who now constitute 15 percent of the U.S. population, have significantly different shopping and eating patterns from those of the general population.[20] They are more likely to prepare meals from scratch, spend more on groceries, prefer stores with bilingual staff and signage, and place importance on fresh food. In addition to adding more ethnic merchandise in conventional supermarkets, retailers are opening supermarkets targeting Hispanic consumers.

For example, Northgate markets in California cater to just Hispanic consumers. Their 36 stores, each approximately 50,000 square feet, feature both domestic and imported Latin American grocery items. Furthermore, they contain a dedicated tortilleria, prepared foods, and a well-stocked and staffed meat department.[21]

Supercenters offer a vast assortments under one roof.

Private-Label Merchandise Conventional supermarket chains are leveraging their quality reputation to offer more private-label merchandise. Private-label brands (discussed in Chapter 13) benefit both customers and retailers. The benefits to customers include having more choices and finding the same ingredients and quality as in national brands at a lower price or higher quality at a similar price to the national brands. The benefits of private-label brands to retailers include increased store loyalty, the ability to differentiate themselves from the competition, lower promotional costs, and higher gross margins compared with national brands.

Improving the Shopping Experience Creating an enjoyable shopping experience through better store ambience and customer service is another approach that supermarket chains use to differentiate themselves from low-cost, low-price competitors. Supermarkets are increasingly incorporating "food as theater" concepts, such as in-store restaurants, open-air market designs, cooking and nutrition classes, demonstrations, baby-sitting services, and food and wine tasting. To appeal to on-the-go consumers, other supermarkets are offering self-service kiosks that are both fun and convenient. Among the offerings, in place at both conventional supermarkets and limited-assortment stores, are Coinstar, a change counting machine; Redbox, a movie rental kiosk; and Starbucks kiosks selling freshly ground and brewed cups of its subbranded Seattle's Best Coffee.[22]

Supercenters

Supercenters are large stores (160,000 to 200,000 square feet) that combine a supermarket with a full-line discount store. Walmart operates more than 3,000 supercenters in the United States. Its leading competitors include Meijer, SuperTarget (Target),

Fred Meyer (Kroger), and Super Kmart Center (Sears Holding). By offering broad assortments of grocery and general merchandise products under one roof, supercenters provide a one-stop shopping experience.

General merchandise (nonfood) items are often purchased on impulse when customers' primary reason for coming to the supercenter is to buy groceries. General merchandise has higher margins, enabling the supercenters to price food items more aggressively. However, supercenters are very large, so some customers find them inconvenient because it can take a long time to find the items they want.

Hypermarkets are also large (160,000 to 200,000 square feet), combination food (60 to 70 percent) and general merchandise (30 to 40 percent) stores. The world's second-largest retailer, Carrefour, operates hypermarkets. Hypermarkets typically stock fewer SKUs than do supercenters—between 40,000 and 60,000 items, ranging from groceries, hardware, and sports equipment to furniture and appliances to computers and electronics.

Hypermarkets were created in France after World War II. By building large stores on the outskirts of metropolitan areas, French retailers could attract customers and not violate strict land-use laws. They have spread throughout Europe and become popular in some South American countries such as Argentina and Brazil.

Hypermarkets are not common in the United States, though they are similar to supercenters. Both hypermarkets and supercenters are large, carry grocery and general merchandise categories, offer self-service, and are located in warehouse-type structures with large parking facilities. However, hypermarkets carry a larger proportion of food items than do supercenters and have a greater emphasis on perishables—produce, meat, fish, and bakery items. Supercenters, in contrast, have a larger percentage of nonfood items and focus more on dry groceries, such as breakfast cereal and canned goods, instead of fresh items.

Both supercenters and hypermarkets face challenges in finding locations for new **big-box** (large, limited-service) **stores.** Although Brazil and China are promising emerging markets, many others are shrinking.[23] In Europe and Japan, land for building large stores is limited and expensive. New supercenters and hypermarkets in these areas often have to be multistory, which increases operating costs and reduces shopper convenience. Furthermore, some countries place restrictions on the size of new retail outlets. In the United States, there has been a backlash against large retail stores, particularly Walmart outlets. These opposing sentiments are based on local views that big-box stores drive local retailers out of business, offer low wages, provide nonunion jobs, have unfair labor practices, threaten U.S. workers through their purchase of imported merchandise, and cause excessive automobile and delivery truck traffic.

Warehouse Clubs

Warehouse clubs are retailers that offer a limited and irregular assortment of food and general merchandise with little service at low prices for ultimate consumers and small businesses. The largest warehouse club chains are Costco, Sam's Club (Walmart), and BJ's Wholesale Club (operating only on the East Coast of the United States). Customers are attracted to these stores because they

People go to warehouse clubs such as Costco to search for treasures like computers at prices lower than those of competitors.

can stock up on large packs of basics like paper towels, large-size packaged groceries like a quart of ketchup, best-selling books and CDs, fresh meat and produce, and an unpredictable assortment of upscale merchandise and services at low prices. For example, at Costco you can buy a 5-carat diamond ring for $99,999.99 with an appraised value of $153,450. Heavy food sampling adds to the shopping experience. Sam's Club focuses more on small businesses, providing services such as group health insurance as well as products. BJ's has beefed up its assortment of fresh meat and produce in recent years. Although package sizes are large compared to those in conventional grocery stores, BJ's provides convenient individual packaging—an attribute that is particularly appealing to its more upscale customers.

Warehouse clubs are large (100,000 to 150,000 square feet) and typically located in low-rent districts. They have simple interiors and concrete floors. Aisles are wide so that forklifts can pick up pallets of merchandise and arrange them on the selling floor. Little service is offered. Warehouse clubs can offer low prices because they use low-cost locations, have inexpensive store designs, and offer little customer service; they further keep inventory holding costs low by carrying a limited assortment of fast-selling items. In addition, they buy merchandise opportunistically. For example, if Hewlett-Packard is introducing new models of its printers, warehouse clubs will buy the inventory of the older models at a significant discount and then offer them for sale until the inventory is depleted.

Most warehouse clubs have two types of members: wholesale members who own small businesses and individual members who purchase for their own use. For example, many small restaurants are wholesale customers that buy their supplies, food ingredients, and desserts from a warehouse club rather than from food distributors. To cater to their business customers, warehouse clubs sell food items in very large containers and packages—sizes that also appeal to larger families. Typically, members pay an annual fee of around $50, which amounts to significant additional income for the chains.

REFACT

Food service sales account for 30 percent of in-store profits for convenience stores while accounting for only 17.3 percent of sales.[24]

Convenience Stores

Convenience stores provide a limited variety and assortment of merchandise at a convenient location in 3,000- to 5,000-square-foot stores with speedy checkout. Convenience stores enable consumers to make purchases quickly, without having to search through a large store and wait in a long checkout line. More than half the items bought are consumed within 30 minutes of purchase.

At convenience stores you can jump out of your car and pick up a Coke and some chewing gum while getting gas.
© BP p.l.c.

Convenience stores generally charge higher prices than supermarkets for similar products like milk, eggs, and bread. These products once represented the majority of their sales, but now the majority of sales come from lower profit products, such as gasoline and cigarettes, putting a strain on their profits.

Convenience stores also face increased competition from other formats. Supercenter and supermarket chains are attempting to appeal to customers by offering gasoline and tying gasoline sales to their frequent shopper programs. For example, shoppers who spend at least $50 and swipe their Giant Eagle Advantage Card at any

GetGo, Market District, Giant Eagle, or Giant Eagle Express location receive a 10-cent discount per gallon on their next fill-up.[25] Drugstores and full-line discount stores also have easily accessible areas of their stores filled with convenience store merchandise.

In response to these competitive pressures, convenience stores are taking steps to decrease their dependency on gasoline sales, tailor assortments to local markets, offer more fresh options, and make their stores even more convenient to shop. For example, to get gasoline customers to spend more on other merchandise and services, convenience stores are offering more food options that appeal to on-the-go consumers, especially women and young adults.[26] Finally, convenience stores are adding new services, such as financial service kiosks that give customers the opportunity to cash checks, pay bills, and buy prepaid telephone minutes, theater tickets, and gift cards.

To increase convenience, convenience stores are opening smaller stores close to where consumers shop and work. For example, 7-Eleven has stores in airports, office buildings, and schools. Easy access, storefront parking, and quick in-and-out access are key benefits offered by convenience stores. They also are exploring the use of technology to increase shopping convenience. Sheetz, a Pennsylvania-based convenience store chain, has touch-screen "Made-to-Order" kiosks at which customers can order customized deli sandwiches, wraps, salads, subs, and nachos while pumping gasoline.[28] Retailing View 2.2 describes the difference between convenience stores in the United States and Japan.

REFACT

Gasoline sales at combination gas station–convenience stores contribute 71 percent of the store's sales. Cigarette and tobacco products contribute 38 percent of in-store merchandise sales.[27]

RETAILING VIEW 2.2 Convenience Stores in Japan Are Different

Japanese corporations might own several U.S. convenience store chains (e.g., 7-Eleven, Circle K), but convenience stores (*konbinis*) in Japan and in the United States have little in common. Whereas shoppers in the United States depend heavily on their cars, most Japanese consumers commute using public transportation and work very long hours. To be convenient, the convenience stores thus locate in central business districts and train and subway stations. Rather than gasoline, *konbinis* sell a broad assortment of services, in addition to their extensive food options, including concert and amusement park tickets. Shoppers can pay their bills or make copies, as well as pick up some fashionable clothing. In turn, Japanese consumers visit convenience stores for approximately 30 percent of their food purchases, whereas in the United States, convenience stores only account for 5 to 10 percent of this market.

REFACT

Convenience store operator 7-Eleven has replaced McDonald's as the world's largest chain in terms of number of outlets. As of July 2012, 7-Eleven had a total of 46,000 stores in 16 countries, compared with 33,510 McDonald's outlets.[29]

Part of the reason for this greater share is the quality of food available in *konbinis*. Whereas late night U.S. snackers might embrace microwaveable burritos, *konbinis* often offer pasta dishes, fresh vegetables, fruit, and prepared meals of restaurant quality. Although they traditionally catered to male customers, more Japanese women in the workforce have led the *konbinis* to adjust their assortments accordingly. A traditional bento box might contain rice with grilled fish or fatty meat—a meal not particularly appealing to female customers. Instead, today's chains prepare healthier food in nicer looking packages, such as *pho* Vietnamese-style noodles; soup in bowls; and elaborate, high-quality desserts.

With their relatively small sizes—around 300 to 600 square feet—and limited storage space, Japanese convenience stores need stellar information and supply chain management capabilities to succeed. That is, they must precisely match store-specific demand with just-in-time supply provisions. The most successful store operators gather customer information during every checkout: automatically, with a system that specifies the time of purchase, product barcode, and price, and manually, when the cashier notes the customer's approximate age and gender. An efficient data analysis system then determines when, how, and what to send to restock each *konbini*. Some stores even might receive up to seven restocking deliveries per day.

Sources: Kazuaki Nagata, "Convenience Store Chains Go With Flow, Grow," *The Japan Times,* May 8, 2012; and Stephanie Strom, "7-Eleven Shifts Focus to Healthier Food Options," *The New York Times,* December, 2012, p. B.1.

DISCUSSION QUESTION

Would Japanese-style convenience stores be successful in the United States? Why or why not?

GENERAL MERCHANDISE RETAILERS

LO3

Identify the various types of general merchandise retailers.

The major types of general merchandise retailers are department stores, full-line discount stores, specialty stores, drugstores, category specialists, extreme-value retailers, off-price retailers, and outlet stores. Exhibit 2–5 summarizes the characteristics of general merchandise retailers that sell through stores.

Department Stores

REFACT

T. Stewart was the first U.S. department store, opening in 1847 in New York.[31]

Department stores are retailers that carry a broad variety and deep assortment, offer customer services, and organize their stores into distinct departments for displaying merchandise. The largest department store chains in the United States are Sears, Macy's, Kohl's, JCPenney, Nordstrom, and Dillards.[30]

Traditionally, department stores attracted customers by offering a pleasing ambience, attentive service, and a wide variety of merchandise under one roof. They sold both **soft goods** (nondurable or consumable goods), which have a shorter lifespan such as cosmetics, clothing, and bedding) and **hard goods,** also known as **durable goods,** which are manufactured items that are expected to last several years, such as appliances, furniture, and consumer electronics. But now, most department stores focus almost exclusively on soft goods. The major departments are women's, men's, and children's apparel; home furnishings; cosmetics; kitchenware; and small appliances. Each department within the store has a specific selling space allocated to it, as well as salespeople to assist customers. The department store often resembles a collection of specialty shops.

Department store chains can be categorized into three tiers. The first tier includes upscale, high-fashion chains with exclusive designer merchandise and excellent customer service, such as Neiman Marcus, Bloomingdale's (part of Macy's Inc.), Nordstrom, and Saks Fifth Avenue (part of Saks Inc.). Macy's and Dillards are in the second tier of traditional department stores, in which retailers sell more modestly priced merchandise with less customer service. The value-oriented third tier—Sears, JCPenney, and Kohl's—caters to more price-conscious consumers.

Department stores account for some of retailing's most cherished traditions—special events and parades (Macy's Thanksgiving parade in New York City), Santa Claus lands, and holiday decorations. But many consumers question the benefits and costs of shopping at department stores. Department stores are not

EXHIBIT 2–5 Characteristics of General Merchandise Retailers

Type	Variety	Assortment	Service	Prices	Size (000 sq. ft.)	SKUs (000)	Location
Department stores	Broad	Deep to average	Average to high	Average to high	100–200	100	Regional malls
Discount stores	Broad	Average to shallow	Low	Low	60–80	30	Stand alone, power strip centers
Category specialists	Narrow	Very deep	Low to high	Low	50–100	20–40	Stand alone, power strip centers
Specialty stores	Narrow	Deep	High	High	4–12	5	Regional malls
Home improvement centers	Narrow	Very deep	Low to high	Low	80–120	20–40	Stand alone, power strip centers
Drugstores	Narrow	Very deep	Average	Average to high	3–15	10–20	Stand alone, strip centers
Off-price stores	Average	Deep but varying	Low	Low	20–30	50	Outlet malls
Extreme-value retailers	Average	Average and varying	Low	Low	7–15	3–4	Urban, strip

Macy's is a very popular department store known for great sales.

as convenient as discount stores, such as Target, because they are located in large regional malls rather than local neighborhoods. JCPenney and Sears thus are following Kohl's by opening stores in nonmall locations. Customer service has diminished in the second- and third-tier stores because of the retailers' desire to increase profits by reducing labor costs.[32]

To deal with their eroding market share, department stores are (1) increasing the amount of exclusive merchandise they sell, (2) increasing their use of private-label merchandise, (3) expanding their multichannel presence.

- *Increase exclusive merchandise.* To differentiate their merchandise offerings and strengthen their image, department stores are aggressively seeking **exclusive brands** in which national brand vendors sell them merchandise that is not available elsewhere. Jennifer Lopez has a clothing line at Kohl's. Ralph Lauren designed a line of casual apparel exclusively for JCPenney called American Living. Furthermore, clothing is not the only category with exclusive lines: Customers looking for exclusive dinnerware collections can go to Macy's and get the Rachel Bilson line or else find the Kardashian Kollection at Sears.[33]
- *Increase private-label merchandise.* Department stores are placing more emphasis on developing their own **private-label brands,** or **store brands.** These items are developed and marketed by the retailer, available only in its stores. Macy's has been very successful in developing a strong image for its brands, including Alfani (women's fashion), Hotel Collection (luxury fabrics), and Tools of the Trade (housewares).[35]
- *Expand multichannel and social media presence.* Finally, like most retailers, most department stores have become active participants in multichannel retailing. At Macy's and Nordstrom, customers can buy or reserve products online and then pick them up at the store. Customers can also return online purchases to stores. At Macy's and JCPenney, sales associates can order out-of-stock merchandise online via their point-of-sale (POS) terminals and have it delivered directly to the customer. As Retailing View 2.3 describes, Nordstrom may be one of the most connected companies in the world.

REFACT

Almost 50 percent of JCPenney sales involve exclusive lines. Kohl's sells approximately 48 percent, and Macy's level is 40 percent of total sales.[34]

2.3 RETAILING VIEW Going Where the Customers Are

For Nordstrom, electronic offerings, such as a Facebook site or allowing customers to order online and pick up their purchases in stores, are old news. Its forward-looking, aggressive approach to social and mobile retailing has earned Nordstrom widespread recognition as a leader in terms of its connectivity—as well as a strong competitive advantage as retail continues to go virtual.

Back in 2010, Nordstrom introduced free wi-fi availability in its stores. This move exemplifies its superior recognition of how modern customers shop. Nearly all its in-store merchandise is available on its website. Furthermore, sales personnel are equipped with iPod Touch and iPad devices so that they can help a customer check out immediately, track inventory levels, and get suggestions for various departments. Staff members also are encouraged to interact with customers through social media, following Nordstrom's detailed guidelines. Such efforts reflect its goal to achieve seamless integration in its customer engagement, whether online, through mobile devices, or in stores.

Continuing its cutting-edge approach, social media for Nordstrom goes far beyond the basics of Facebook, Twitter, and YouTube. It also makes it presence felt on Pinterest, the online bulletin board; Instagram, Facebook's photo-sharing site; and the fashionista meeting place Polyvore. As a Nordstrom representative asserted, "Some people look at it as, 'If you have a Facebook site, then you've got a social media strategy.' I think that's shortsighted."

To expand its online reach, Nordstrom has turned to an acquisitions strategy, purchasing shares in the flash sale site HauteLook, the children's clothing retailer Peek, the Sole Society shoe club, and the rapidly growing Bonobos menswear site. It also purchased advertising space in places with widespread reach, like in the massively popular Words with Friends game application.

Its efforts have paid off, not only in its image as a connected retailer, but also in the bottom line. It has attracted more than 1 million followers on Twitter. And the retailer's Internet sales grew by 30 percent in 2011. This result has prompted it to invest even more in its e-commerce efforts, up to $140 million in 2012.

Sources: David Hatch, "Nordstrom in Fashion with Social Media, Mobile Tech," *U.S. News and World Report,* May 15, 2012; Rimma Kats, "Nordstrom Put Focus on Social with New Media Initiative," *Mobile Marketer,* June 11, 2012; Sherilynn Macale, "This Retailer's Social-Powered Santa Claus Puts the Christmas Spirit Back in Gift Giving," *The Next Web,* November 25, 2011; and "Social Networking Guidelines," http://shop.nordstrom.com/c/social-networking-guidelines.

DISCUSSION QUESTION

How is social media helping Nordstrom stay connected with its customer base?

Full-Line Discount Stores

Full-line discount stores are retailers that offer a broad variety of merchandise, limited service, and low prices. Discount stores offer both private labels and national brands. The largest full-line discount store chains are Walmart, Target, and Kmart (Sears Holding). However, these full-line discount stores confront intense competition from category specialists that focus on a single category of merchandise, such as Staples, Best Buy, Bed Bath & Beyond, Sports Authority, and Lowe's.

In response, Walmart has taken a couple of routes. First, it has converted many of its discount stores into supercenters,[36] which are more efficient than traditional discount stores because of the economies of scale that result from the high traffic generated by the food offering. Second, it is expanding into more urban locations, using smaller storefronts that can be located in existing buildings, and appealing to price-oriented markets.[37]

Target has experienced considerable growth in the last decade because its stores offer fashionable merchandise at low prices in a pleasant shopping environment. It has developed an image of "cheap chic," continuously offering limited-edition exclusive apparel and cosmetic lines. In its GO International campaign, the retailer has teamed with such well-known designers as Missoni, Stefani, Harajuku Mini, Albertus Swanepoel, and Josie Natori.[38]

In contrast, Sears—and its Kmart brand—has struggled a bit in recent years and therefore is attempting an innovative and unusual solution. It will lease retail space in its stores to independent merchants. For example, in a huge Sears store in California, Western Athletic has leased approximately one-quarter of the space to insert a health club.[40]

REFACT

Hudson's Bay Company, the oldest retailer in North America, conquered the Canadian wilderness by trading furs more than 300 years ago. Today, it is one of the largest retailers in Canada, operating chains of discount, department, and home stores.[39]

EXHIBIT 2–6
Category Specialists

Apparel/Shoe/ Accessories	**Furniture**	**Sporting Goods**	**Office Supply**
Mens Wearhouse	IKEA	Bass Pro Shops Outdoor World	Office Depot
DSW	Pier 1	Cabela's	Staples
Books	Sofa Express	Dick's Sporting Goods	Office Max
Barnes & Noble	**Home**	L.L. Bean	**Pet Supplies**
Consumer Electronics	Bed Bath & Beyond	Golfsmith	PetSmart
Best Buy	The Container Store	REI	PETCO
Crafts	World Market	Sports Authority	**Musical Instruments**
Michaels	**Home Improvement**	**Toys**	Guitar Center
	Home Depot	Toys "R" Us	
	Lowe's		

Category Specialists

Category specialists are big-box stores that offer a narrow but deep assortment of merchandise. Exhibit 2–6 lists some of the largest category specialists in the United States.

Most category specialists predominantly use a self-service approach, but they offer assistance to customers in some areas of the stores. For example, Staples stores have a warehouse atmosphere, with cartons of copy paper stacked on pallets, plus equipment in boxes on shelves. But in some departments, such as computers and other high-tech products, it provides salespeople in the display area to answer questions and make suggestions. Bass Pro Shops Outdoor World is a category specialist offering merchandise for outdoor recreational activities. The stores offer everything a person needs for hunting and fishing—from 27-cent plastic bait to boats and recreational vehicles costing $45,000. Sales associates are knowledgeable outdoors people. Each is hired for a particular department that matches that person's expertise. All private-branded products are field-tested by Bass Pro Shops' professional teams: the Redhead Pro Hunting Team and Tracker Pro Fishing Team.

By offering a complete assortment in a category, category specialists can "kill" a category of merchandise for other retailers and thus are frequently called **category killers.** Using their category dominance and buying power, they buy products at low prices and are ensured of supply when items are scarce. Department stores and full-line discount stores located near category specialists often have to reduce their offerings in the category because consumers are drawn to the deep assortment and competitive prices at the category killer.

Although category specialists compete with other types of retailers, competition between them is intense. Competing category specialists such as Lowe's and Home Depot, or Staples and Office Depot, have difficulty differentiating themselves on most of the elements of their retail mixes. They all provide similar assortments because they have similar access to national brands, and they all provide a similar level of service. Primarily then, they compete on price and location. Some category specialists are also experiencing intense competition from warehouse clubs like Sam's Club and Costco.[42]

REFACT

The three office superstore chains—Staples, Office Depot, and Office Max—dominate the business with a combined $41.6 billion in annual sales, out of an estimated $100 billion market. They generally have margins of 25 to 28 percent of sales, higher than their warehouse club competition, Sam's Club and Costco.[41]

Category specialists, like Staples, offer a deep assortment of merchandise at low prices.

REFACT

Dollar General revenues exceed $14 billion. It is the largest and fastest-growing extreme value chain.[43]

Therefore, many of them are attempting to differentiate themselves with customer service. For example, Home Depot and Lowe's hire experienced builders as sales associates to help customers with electrical and plumbing repairs. They also provide classes to train home owners in tiling, painting, and other tasks to give shoppers the confidence to tackle their do-it-yourself (DIY) projects on their own. Home Depot offers an integrated line of Martha Stewart brand products, with different themes marked by unique icons, such that a customer can create a professional-looking decorated space simply by choosing products with matching icons.[44] Besides beefing up its sales associates' training to help customers purchase high-tech products like computers and printers, Staples has implemented "Easy Tech" in its stores to help people with computer and related problems and has installed Staples Copy and Print shops to compete with FedEx Office.

Specialty Stores

Specialty stores concentrate on a limited number of complementary merchandise categories and provide a high level of service. Exhibit 2–7 lists some of the largest specialty store chains.

Specialty stores tailor their retail strategy toward very specific market segments by offering deep but narrow assortments and sales associate expertise. Victoria's Secret is the leading specialty retailer of lingerie and beauty products in the United States. Using a multipronged location strategy that includes malls, lifestyle centers, and central business districts, the company conveys its message using supermodels and world-famous runway shows.[45]

Sephora, France's leading perfume and cosmetic chain—a division of luxury-goods conglomerate LVMH (Louis Vuitton-Moet Hennessy)—is another example of an innovative specialty store concept. Sephora provides a cosmetic and perfume specialty store offering a deep assortment in a self-service format. It also maintains separate stores-within-stores at JCPenney. The approximately 15,000 SKUs and 200 brands, including its own private-label brand, are grouped by product category instead of by brand like in department stores, with brands displayed alphabetically so customers can locate them easily. Customers are free to shop and experiment on their own. Sampling is encouraged. Knowledgeable salespeople are available to assist customers. The low-key environment results in customers' spending more time shopping.

Specialty retailers have such great appeal that they rank among the most profitable and fastest growing firms in the world. Apple stores sell a remarkable

EXHIBIT 2–7
Specialty Store Retailers

Apparel	Electronics/Software	Jewelry	GNC
Abercrombie & Fitch	Ascend Acoustics	Blue Nile	Kiehl's
Brooks Brothers	Apple	Tiffany & Co.	M.A.C.
The Buckle	Brookstone	Zales	MakeupMania.com
Forever 21	Crutchfield	**Optical**	Sephora
The Gap	GameStop	1-800 Contacts	**Shoes**
H&M	Newegg	LensCrafters	ALDO
Indochino.com	Radio Shack	Pearle Vision	Allen Edmonds
Ralph Lauren	Tiger Direct	Sunglass Hut	FootLocker
J. Crew	**Housewares**	**Health/Beauty**	Nine West
Threadless	Crate & Barrel	Aveda	Steve Madden
Urban Outfitters	Pottery Barn	Bath & Body Works	The Walking Company
Victoria's Secret	Sur la Table	The Body Shop	Zappos
Zara	Williams Sonoma		

$5,647 per square foot on average, and its stock price jumped more than 25 percent in 2011. Lululemon's specialty is far less technical, involving yoga-inspired apparel and accessories, but it keeps opening its specialty stores at a remarkable rate of several per month. These stores earn an average of $1,800 per square foot.[46]

Charming Charlie stores are not quite as well known as the preceding brands, but the small company's success confirms the appeal of specialty retailers. In just seven years, the accessories and jewelry chain has grown to 178 stores, spread over 33 states. Its rapid growth is well matched by its influence: It was one of the first retailers to group merchandise by color instead of category. Furthermore, it works to maintain affordable prices ranging from less than $5 to no more than $50. That is, this specialty store specializes in helping customers update their wardrobes with new pieces, rather than forcing them to start all over again.[47]

Sephora is an innovative specialty store selling perfume and cosmetics.

In addition, many manufacturers have opened their own specialty stores. Consider, for instance, Levi's (jeans and casual apparel), Godiva (chocolate), Cole Haan (shoes and accessories), Lacoste (apparel), Coach (purses and leather accessories), Tumi (luggage), Wolford (intimate apparel), Lucky brand (jeans and casual apparel), Samsonite (luggage), and Polo/Ralph Lauren (apparel and home). Tired of being at the mercy of retailers to purchase and merchandise their products, these manufacturers and specialty retailers can control their own destiny by operating their own stores.

REFACT

Approximately 16 to 18 percent of Americans shop at thrift resale stores.[48]

Another growing specialty store sector is the resale store. Resale stores are retailers that sell secondhand or used merchandise. A special type of resale store is the **thrift store,** where merchandise is donated and proceeds go to charity. Another type of resale store is the **consignment shop,** a store that accepts used merchandise from people and pays them after it is sold. Resale stores earn national revenues of more than $13 billion. They also have enjoyed double-digit growth rates in the past few years.[49] Although the ambiance of resale stores traditionally was less appealing than that of other clothing or housewares retailers, the remarkable prices for used merchandise drew in customers.

Today, many resale stores also have increased their value by making their shopping space more pleasant and increasing levels of service.[50] With their lower expenses (in that they pay a discounted price to people selling their used apparel), resale stores are moving into storefronts in higher-end locations that have been abandoned by traditional retailers.[51]

Perhaps the best known and most widely expanded thrift shop is Goodwill Industries. In addition to its retail outlets, Goodwill runs an extensive job training and placement division, such that customers shopping at these outlets get a warm glow from knowing that their purchases help others. Unlike most other resale stores, Goodwill accepts all goods. The old stereotype of a cluttered, dark, odd-smelling Goodwill store has changed. The company has revamped and updated stores nationwide. Local stores seek to meet local needs, such that the New England–area Goodwill stores host annual bridal dress sales, and the Suncoast division in Florida maintains a catering department.[52]

Drugstores

Drugstores are specialty stores that concentrate on health and beauty care (HBC) products. Many drug stores have steadily increased the space devoted to cosmetics. Prescription pharmaceuticals often represent almost 65 percent of drugstore sales.[53]

The largest drugstore chains in the United States are Walgreens, CVS, and Rite Aid, which together run more than 36,000 stores, or 60 percent of the drug stores in the United States.[54] Much of this increased concentration has occurred through mergers and acquisitions. For instance, CVS acquired Longs, Sav-On, and Osco (as well as Caremark, which manages the prescription drug aspect for many insurance plans); Rite Aid acquired Brooks and Eckerd.

Drugstores face competition from pharmacies in discount stores and from pressure to reduce health care costs. In response, the major drugstore chains are offering a wider assortment of merchandise, including more frequently purchased food items, as well as new services, such as the convenience of drive-through windows for picking up prescriptions, in-store medical clinics, and even makeovers and spa treatments.[55]

In the Duane Reade store on Wall Street, near the New York Stock Exchange, customers find a vast array of offerings, such as $10 manicures, a hair salon staffed by a dedicated beauty consultant, a juice bar, and sushi chefs, next to typical drugstore products. Medical questions can be answered by the doctor who works there. In this store, the top sellers are now sushi, fresh juice, and bananas—though customers have not changed completely, so rounding out the top five sellers are coffee and Marlboro cigarettes.[56]

Walgreens hosts a café in its Chicago flagship store, where customers waiting to pick up a prescription can enjoy fresh coffee, breads, and pastries; munch on sushi or sandwiches; or visit the juice bar for a healthy smoothie or a nostalgic chocolate malted milkshake. But if they stop by later in the day, shoppers might prefer to browse the store's stock of 700 fine wines, artisanal cheeses, and gourmet chocolates.[57]

Although drugstores thus offer major advantages, especially in terms of convenience, they suffer from a price comparison when it comes to their grocery merchandise. A recent study indicated that the same selection of goods that cost $75.60 at a supermarket would run customers $102.94 at a nearby drug store.[58]

REFACT

Walgreens' merger/acquisition of Alliance Boots has resulted in the largest pharmaceutical distribution network with more than 11,000 stores in 12 countries.[59]

Extreme-Value Retailers

Extreme-value retailers, also called **dollar stores,** are small discount stores that offer a broad variety but shallow assortment of household goods, health and beauty care (HBC) products, and groceries. The largest extreme-value retailers are Dollar General and Family Dollar.[60] As noted in the discussion of trends in food retailing, these stores have been expanding their assortments to include more private-label options, food, tobacco, and impulse buys such as candy, magazines, and gift cards.[61] Some extreme-value retailers, such as Dollar General, are adding refrigerated coolers and expanding their food offerings so that they can be known as the best destination store for a greater variety of household necessities. As a result, this retail model continues to attract significantly increasing numbers of shopper visits.[62]

Extreme-value retailers primarily target low-income consumers. These customers want well-known brands but cannot afford to buy the large-size packages offered by full-line discount stores or warehouse clubs. Vendors such as Procter & Gamble often create special, smaller packages for extreme-value retailers. Because these stores appeal to low-income consumers, are located where they live, and have expanded their assortments while keeping their unit prices low, they have cut into other retailers' businesses, including Walmart. Always ready for a good competitive battle, Walmart is opening smaller stores called Walmart Express in urban locations and creating smaller and less expensive packages to better compete.[63]

What you can still get for a dollar?

Despite some of these chains' names, few just sell merchandise for a dollar. The two largest—Dollar General and Family Dollar—do not employ a strict dollar limit and sell merchandise for up to $20. The names imply a good value but do not limit customers to the arbitrary dollar price point. Dollar Tree experimented with selling merchandise for more than a dollar, but it is back to being a dollar purist.[65]

REFACT

The number of visits to extreme-value retailers are increasing, while visits to large stores like Walmart are declining.[64]

Off-Price Retailers

Off-price retailers offer an inconsistent assortment of brand-name merchandise at a significant discount off the manufacturers' suggested retail price (MSRP). America's largest off-price retail chains are TJX Companies (which operates TJ Maxx, Marshalls, Winners, HomeGoods, TKMaxx, AJWright, and HomeSense), Ross Stores, Burlington Coat Factory, and Big Lots. Overstock.com and Bluefly.com are the largest Internet off-price retailers.

Off-price retailers are able to sell brand-name and even designer-label merchandise at 20 to 60 percent lower than the manufacturer's suggested retail price because of their unique buying and merchandising practices. Much of the merchandise is bought opportunistically from manufacturers that have overruns, canceled orders, forecasting mistakes causing excess inventory, closeouts, and irregulars. They also buy excess inventory from other retailers. **Closeouts** are end-of-season merchandise that will not be used in following seasons. **Irregulars** are merchandise with minor mistakes in construction. Off-price retailers can buy at low prices because they do not ask suppliers for advertising allowances, return privileges, markdown adjustments, or delayed payments. (These terms and conditions for buying merchandise are detailed in Chapter 13.)

Due to this opportunistic buying, customers cannot be confident that the same type of merchandise will be in stock each time they visit the store. Different bargains will be available on each visit. For many off-price shoppers, inconsistency is exactly why they like to go there. They enjoy hunting for hidden treasures. To improve their offerings' consistency, some off-price retailers complement their opportunistically bought merchandise with merchandise purchased at regular wholesale prices. Although not well known because few vendors to off-price retailers want to advertise their presence, the CEO of TJX asserts that the vast majority

Luxury merchandise at great prices.

of merchandise in its stores is same-season items, purchased directly from manufacturers.[66] She also claims less than 5 percent of TJX merchandise is irregular.

An online twist to off-price retailing are flash-sale sights such as Gilt Groupe, Rue La La, and HauteLook. They are called **flash sales** because each day at the same time, members receive an e-mail that announces the deals available. Each deal lasts for a specific and limited time, and the sales are first-come, first-served. A shopper who misses out on a great deal is far more likely to buy the next time around. These sites often require members to register.

A special type of off-price retailer is the outlet store. **Outlet stores** are off-price retailers owned by manufacturers or retailers. Those owned by manufacturers are also referred to as **factory outlets.** Manufacturers view outlet stores as an opportunity to improve their revenues from irregulars, production overruns, and merchandise returned by retailers. Others view it as simply another channel in which to sell their merchandise. Retailers with strong brand names such as Saks Fifth Avenue (Saks Fifth Avenue's Off 5th) and Williams-Sonoma operate outlet stores too. By selling excess merchandise in outlet stores rather than at markdown prices in their primary stores, these department and specialty store chains can maintain an image of offering desirable merchandise at full price.[67] For some retailers, their outlet stores are the wave of the future. Nordstrom expects that sometime soon, it will have more Nordstrom Rack stores than regular Nordstrom department stores.[68]

Outlet stores can have an adverse effect on profits, however, because they shift sales from full-price retailers to the lower-priced outlets. Additionally, outlet stores are becoming more promotional to compete with increased activity at other outlet stores within the same mall and with traditional off-price stores.[69]

SERVICE RETAILING

LO4

Explain the differences between service and merchandise retailers.

The retail firms discussed in the previous sections sell products to consumers. However, **service retailers,** or firms that primarily sell services rather than merchandise, are a large and growing part of the retail industry. Consider a typical Saturday: After a bagel and cup of coffee at a nearby Einstein Bros. Bagels, you go to the laundromat to wash and dry your clothes, drop a suit off at a dry cleaner, leave your computer to be serviced by the Geek Squad at Best Buy, and make your way to Jiffy Lube to have your car's oil changed. In a hurry, you drive through a Taco Bell so that you can eat lunch quickly and not be late for your 1:00 p.m. haircut. By midafternoon, you're ready for a workout at your health club. After stopping at home for a change of clothes, you're off to dinner, a movie, and finally clubbing with a friend. You end your day having interacted with 10 different services retailers throughout the day.

Several trends suggest considerable future growth in service retailing. For example, the aging population will increase demand for health care services. Younger people are also spending more time and money on health and fitness. Busy parents in two-income families are willing to pay to have their homes cleaned, lawns maintained, clothes washed and pressed, and meals prepared so that they can spend more time with their families.

Exhibit 2–8 shows the wide variety of services, along with some national companies that provide these services. These companies are retailers because they sell

EXHIBIT 2–8
Services Retailers

Type of Service	Service Retail Firms
Airlines	American, Southwest, British Airways, JetBlue
Automobile maintenance and repair	Jiffy Lube, Midas, AAMCO
Automobile rental	Hertz, Avis, Budget, Enterprise
Banks	Citi, Wachovia, Bank of America
Child care centers	Kindercare, Gymboree
Dry cleaners	Zoots
Education	Babson College, University of Florida, Princeton Review
Entertainment	Disney World, Six Flags, Chuck E. Cheese, Dave & Busters
Express package delivery	FedEx, UPS, U.S. Postal Service
Fast food	Wendy's, McDonald's, Starbucks
Financial services	Merrill Lynch, Morgan Stanley, American Express, VISA
Fitness	Jazzercise, Bally's, Gold's Gym
Health care	Humana, HCA, Kaiser
Home maintenance	Chemlawn, Mini Maid, Roto-Rooter
Hotels and motels	Hyatt, Sheraton, Marriott, Days Inn
Income tax preparation	H&R Block
Insurance	Allstate, State Farm, Geico
Internet access/electronic information	Google, Internet Explorer, Mozilla Firefox, Safari
Movie theaters	AMC, Odeon/Cineplex
QSR	Panera Bread, Red Mango, Pinkberry
Real estate	Century 21, Coldwell Banker
Restaurants	Applebees's, Cheesecake Factory
Truck rentals	U-Haul, Ryder
Weight loss	Weight Watchers, Jenny Craig, Curves
Video rental	Blockbuster
Vision centers	LensCrafters, Pearle

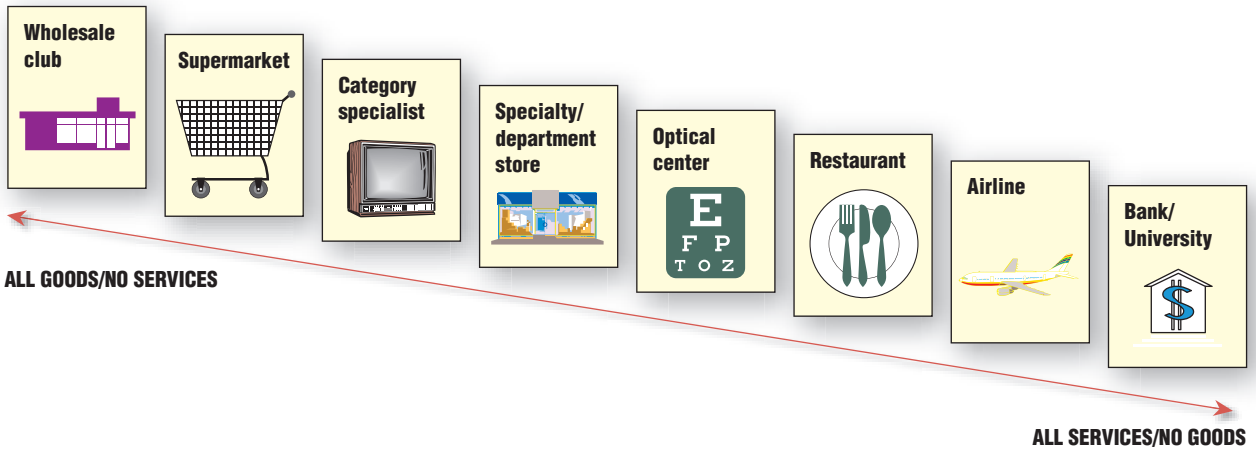
goods and services to consumers. However, some are not just retailers. For example, airlines, banks, hotels, and insurance and express mail companies sell their services to businesses as well as consumers.

Organizations such as banks, hospitals, health spas, legal clinics, entertainment firms, and universities that offer services to consumers traditionally have not considered themselves retailers. Yet due to increased competition, these organizations are adopting retailing principles to attract customers and satisfy their needs. For example, Zoots is a dry-cleaning chain in the Boston area.[70] Founded by a former Staples executive, Zoots has adopted many retailing best practices: It has convenient locations, and it offers pickup and delivery service. Zoots stores also provide extended hours, are open on weekends, and offer a drop-off option for those who cannot get to the store during operating hours. The stores are bright and clean. Customers can check their order status, schedule a pickup, and provide special instructions using the online MY ZOOTS service. Clerks are taught to welcome customers and acknowledge their presence, especially if there is a line.

Most retailers provide both merchandise and services for their customers. However, the emphasis placed on the merchandise versus the service differs across retail formats, as Exhibit 2–9 shows. On the left side of the exhibit

Going to Zoots to pick up laundry and dry cleaning is as easy as going to an ATM machine.

EXHIBIT 2–9 Continuum of Merchandise and Services Retailers



are supermarkets and warehouse clubs. These retail formats consist of self-service stores that offer very few services, except perhaps cashing checks and assisting customers at checkout.

Moving along the continuum from left to right, department and specialty stores provide higher levels of service. In addition to providing assistance from sales associates, they offer services such as gift wrapping, bridal registries, and alterations. Optical centers and restaurants lie somewhere in the middle of the merchandise-service continuum. In addition to selling frames, eyeglasses, and contact lenses, optical centers provide important services like eye examinations and eyeglass fittings. Similarly, restaurants offer food plus a place to eat, music in the background, a pleasant ambience, and table service.

As we move to the right end of the continuum, we encounter retailers whose offerings are primarily services. However, even these retailers have some products associated with the services offered, such as a meal on an airplane or a checkbook at a bank.

Differences between Service and Merchandise Retailers

Four important differences in the nature of the offerings provided by services and merchandise retailers are (1) intangibility, (2) simultaneous production and consumption, (3) perishability, and (4) inconsistency of the offering to customers.

Intangibility Services are less tangible than products—customers cannot see or touch them. They are performances or actions rather than objects. For example, health care services cannot be seen or touched by a patient. Intangibility introduces several challenges for services retailers. Because customers cannot touch and feel services, it is difficult for them to evaluate services before they buy them or even after they buy and consume them. Due to the intangibility of their offerings, services retailers often use tangible symbols to inform customers about the quality of their services. For example, lawyers frequently have elegant, carpeted offices with expensive antique furniture. Services retailers also have difficulty evaluating the quality of services they are providing. For example, it can be hard for a law firm to evaluate how well its lawyers are performing their jobs. To determine the quality of their offerings, services retailers often solicit customer evaluations and scrutinize complaints. In addition, online evaluation systems such as Angie's List and Yelp compile reviews from other consumers. The summary reviews give a sense of how well the service provider performs, according to people who have already purchased the service.

Simultaneous Production and Consumption Products are typically made in a factory, stored and sold by a retailer, and then used by consumers in their homes. Service providers, however, create and deliver the service as the customer is consuming it. For example, when you eat at a restaurant, the meal is prepared and consumed almost at the same time. The simultaneity of production and consumption also creates some special problems for services retailers. First, the customers are present when the service is produced, may even have an opportunity to see it produced, and in some cases may be part of the production process. For example, customers at Build-A-Bear Workshop make their own teddy bears. Second, other customers consuming the service at the same time can affect the quality of the service provided. For example, an obnoxious passenger next to you on an airplane can make the flight very unpleasant. Third, services retailers often do not get a second chance to satisfy the needs of their customers. Whereas customers can return damaged merchandise to a store, customers who are dissatisfied with services have limited recourse. Thus, it is critical for services retailers to get it right the first time.

Because services are produced and consumed at the same time, it is difficult to reduce costs through mass production. For this reason, most services retailers are small, local firms. Some national services retailers are able to reduce costs by "industrializing" the services they offer. They make substantial investments in equipment and training to provide a uniform service.

Perishability Services are perishable. They cannot be saved, stored, or resold. Once an airplane takes off with an empty seat, the sale is lost forever. In contrast, merchandise can be held in inventory until a customer is ready to buy it. Due to the perishability of services, services retailing must match supply and demand. Most services retailers have a capacity constraint, and their capacity cannot be changed easily. There are a fixed number of tables in a restaurant, seats in a classroom, beds in a hospital, and electricity that can be generated by a power plant. To increase capacity, services retailers need to make major investments, such as buying more airplanes or building an addition to increase the size of the hospital or restaurant. In addition, demand for service varies considerably over time. Consumers are most likely to fly on airplanes during holidays and the summer, eat in restaurants at lunch- and dinnertime, and use electricity in the evening rather than earlier in the day.

Services retailers use a variety of programs to match demand and supply. For example, airlines and hotels set lower prices on weekends, when they have excess capacity because businesspeople are not traveling. To achieve more capacity flexibility, health clinics stay open longer during flu season and tax preparation services are open on weekends during March and April. Restaurants increase staffing on weekends, may not open until dinnertime, and use a reservation system to guarantee service delivery at a specific time. Finally, services retailers attempt to make customers' waiting time more enjoyable. For example, videos and park employees entertain customers while they wait in line at Disney theme parks.

Inconsistency Products can be produced by machines with very tight quality control, so customers are reasonably assured that all boxes of Cheerios will be identical. But because services are performances produced by people (employees and customers), no two services will be identical. For example, tax accountants can have different knowledge and skills for preparing tax returns. The waiter at the Olive Garden can be in a bad mood and make your dining experience a disaster. Thus, an important challenge for services retailers is to provide consistent high-quality services. Many factors that determine service quality are beyond the control of retailers; however, services retailers expend considerable time and effort selecting, training, managing, and motivating their service providers.

TYPES OF OWNERSHIP

LO5

Explain the types of ownership for retail firms.

Previous sections of this chapter discussed how retailers may be classified in terms of their retail mix and the merchandise and services they sell. Another way to classify retailers is by their ownership. The major classifications of retail ownership are (1) independent, single-store establishments; (2) corporate chains; and (3) franchises.

Independent, Single-Store Establishments

Retailing is one of the few sectors in most countries in which entrepreneurial activity is extensive. Many retail start-ups are owner-managed, which means management has direct contact with customers and can respond quickly to their needs. Small retailers are also very flexible and can react quickly to market changes and customer needs. They are not bound by the bureaucracies inherent in large retail organizations.[71]

For example, after more than a decade working for other UK fashion firms, Deryane Todd decided to open her own shop and, since then has expanded multiple times. The secret to the success of The Dressing Room is Todd's strong attention to determining and then providing exactly what her customers want. Despite the long hours and seven-day workweek, Todd expresses her love for her job because of the options it provides her. Todd hires her staff, trains them in her own way, determines the layout of the store, and designs the website.[72]

Whereas single-store retailers can tailor their offerings to their customers' needs, corporate chains can more effectively negotiate lower prices for merchandise and advertising because of their larger size. Corporate chains can and do invest in sophisticated analytical systems to help them buy and price merchandise. In addition, corporate chains have a broader management base, with people who specialize in specific retail activities. Single-store retailers typically must rely on their owner-managers' capabilities to make the broad range of necessary retail decisions.

To compete against corporate chains, some independent retailers join a **wholesale-sponsored voluntary cooperative group,** which is an organization operated by a wholesaler offering a merchandising program to small, independent

The secret of success to The Dressing Room in the United Kingdom is the owner's attention to understanding what her customers want.

retailers on a voluntary basis. The Independent Grocers Alliance (IGA), Tru Serv (supplier to True Value Hardware), and Ace Hardware are wholesale-sponsored voluntary cooperative groups. In addition to engaging in buying, warehousing, and distribution, these groups offer members services such as advice on store design and layout, site selection, bookkeeping and inventory management systems, and employee training programs.

Corporate Retail Chains

A **retail chain** is a company that operates multiple retail units under common ownership and usually has centralized decision making for defining and implementing its strategy. Retail chains can range in size from a drugstore with two stores to retailers with thousands of stores, such as Kroger, Walmart, Best Buy, and Macy's. Some retail chains are divisions of larger corporations or holding companies. For example, the Williams Sonoma corporation actually consists of four brands, Williams Sonoma, Pottery Barn, west elm, and Rejuvenation. Furthermore, its Pottery Barn branch features the PB teen and pottery barn kids lines. Royal Ahold owns 14 retail chains, including Stop and Shop, Giant, and Peapod in the United States and ICA and Albert Heijh in Europe.

Franchising[73]

Franchising is a contractual agreement in which the franchisor (the company) sells the rights to use its business trademark, service mark, or trade name, or another commercial symbol of the company, to the franchisee for a one-time franchise fee and an ongoing royalty fee, typically expressed as a percentage of gross monthly sales. More than 40 percent of all U.S. retail sales are made by franchisees,[74] and this type of retail ownership is growing around the world.[75]

When considering the franchise option, potential franchisees must understand the attractions and drawbacks of buying a franchise versus starting a retail business from scratch. There are many reasons to consider franchise ownership, including the success rate, which results partially from the proven business model that the franchisor offers. Success also results from the unique relationship between the franchisor and the franchisee, in which both parties benefit from the success of the franchisee. To get franchisees off to a good start, most franchisors provide off- and onsite training, location analysis assistance, advertising, and sometimes a protected territory (i.e., no other franchise may open a store within a certain radius of the first store). Some franchisors even provide financing or offer third-party financing opportunities.

There are also several drawbacks to franchise ownership. In addition to having to pay money to the franchisor, the franchisee needs financing for start-up costs, including rent or purchase price of office/retail space; modification of the space according to the guidelines of the franchisor (e.g., paint colors, flooring, lighting, layout); signage; opening inventory; and equipment. In addition to incurring the capital costs, the franchisee must adhere to the franchisor's rules and operating guidelines. In many

McDonald's franchises are growing all over the world.

2.4 RETAILING VIEW Tart Frozen Yogurt—The Sweet Franchise

Frozen yogurt franchise operations Pinkberry and Red Mango both opened in the mid-2000s; they compete with old standby TCBY and some smaller regional chains. The appeal of Pinkberry and Red Mango to customers is not just the low fat of frozen yogurt but also its ability to boost people's immune system and improve calcium absorption. The tart frozen yogurt is dense with active cultures and probiotics. These health benefits, along with the great taste, has changed the way consumers think about frozen yogurt. Consumers are making multiple yogurt purchases each week, instead of buying it as an occasional nonroutine indulgence.

In addition to a limited number of exotic flavors—coconut, lychee and mango, many of which are seasonal—both Pinkberry and Red Mango offer a wide array of high-end toppings. The minimalism in the flavor choices is part of both companies' brand image, as reflected in the stark, bright store layouts. That is, these popular new chains offer consistency across their products and store images, even as it promises that customers can eat healthy, low-fat, hormone-free milk products, and still indulge in unusual yogurt flavors and interesting toppings.

Howard Schultz, the chair of Starbucks, invested $27.5 million in Pinkberry through his venture capital firm and appears to be trying to make it the Starbucks of frozen yogurt chains. Expectations are high, including a growth plan to have one Pinkberry for every 10 Starbucks in the country. Red Mango would like to have 500 units in the United States but is controlling its growth by carefully selecting its franchisees and monitoring their performance. Many franchises become very popular and ultimately fail within five years as a result of growing too large, too fast. An interesting incentive to attract franchisees by reducing their risk is Red Mango's Store Buy Back program, in which the corporate franchise will buy back a store in the first six months if the franchisee is not satisfied.

New franchises like Red Mango appeal to customers because its frozen yogurt is low-fat, boosts people's immune systems, and improves calcium absorption.

If the frozen yogurt market becomes as competitive as the premium coffee market, then TCBY may become the Dunkin' Donuts of yogurt franchises, while Red Mango and Pinkberry will be the Starbucks.

Sources: Jaime Levy Pessin, "Yogurt Chains Give Power to the People," *The Wall Street Journal,* August 22, 2011; Yolanda Santosa, "The Making of Pinkberry," *Brand Packaging,* November 2, 2011; Blair Chancey, "Red Mango Revolution," *QSR Magazine,* October 1, 2009; and Kelly Bayliss, "Free Fro-Yo Today," *NBC Philadelphia,* September 23, 2009.

cases, the franchisee is required to purchase operating materials from the franchisor, especially in fast-food franchises that rely on standardized products across franchises for the success of the brand. The franchisor also might require the franchisee to purchase the equipment needed to offer a new product, such as fryers at a McDonald's or beds at a Holiday Inn. The hours of operation and days of the year that the business is allowed to close also may be dictated by the franchisor.

Retailing View 2.4 describes the sweet and tart world of frozen-yogurt franchises.

SUMMARY

LO1 List the different characteristics that define retailers.

To collect statistics about retailing, the federal government classifies retailers by the type of merchandise and services they sell. But this classification method may not be useful to determine a retailer's major competitors. A more useful approach for understanding the retail marketplace is to classify retailers on the basis of the retail mix, merchandise variety and assortment, services, location, pricing, and promotion decisions they make to attract customers.

LO2 Categorize the various types of food retailers.

Food retailing has undergone substantial expansion. Whereas once supermarkets were nearly the only source for food shoppers, today they can choose among traditional supermarkets, hypermarkets or superstores, limited-assortment markets, warehouse clubs, and convenience stores, to name a few.

LO3 Identify the various types of general merchandise retailers.

General merchandise retailers come in various forms, each with its own offerings, benefits, and limitations. These formats include department stores, full-line discount stores, specialty stores, drugstores, category specialists, extreme-value retailers, off-price retailers, and outlet stores.

LO4 Explain the differences between service and merchandise retailers.

The inherent differences between services and merchandise result in services retailers' emphasizing training of employees, whereas merchandise retailers emphasize inventory management issues. Retail institutions have changed in response to a changing marketplace, such that there is significant crossover between these types of retailers.

LO5 Illustrate the types of ownership for retail firms.

Small, independent retailers are usually owned and managed by a single founder. In contrast, corporate retail chains involve vast organizations and operate multiple stores. Another option that allows individual entrepreneurs to enjoy the security of corporate chains is franchising, a growing type of retail organization.

KEY TERMS

assortment, *37*
big-box store, *45*
breadth of merchandise, *37*
category killer, *51*
category specialist, *51*
closeouts, *55*
consignment shop, *53*
convenience store, *46*
conventional supermarket, *42*
department store, *48*
depth of merchandise, *37*
dollar store, *54*
drugstore, *54*
durable goods, *48*
exclusive brand, *49*
extreme-value food retailer, *42*
extreme-value retailer, *54*
factory outlet, *56*
fair trade, *43*
flash sale, *56*
franchising, *61*
full-line discount store, *50*
hard goods, *48*
hypermarket, *45*
irregulars, *55*
limited-assortment supermarket, *42*
locavore movement, *43*
North American Industry Classification System (NAICS), *36*
off-price retailer, *55*
outlet store, *56*
power perimeter, *43*
private-label brand, *49*
retail chain, *61*
services retailer, *56*
soft goods, *48*
specialty store, *52*
stock-keeping unit (SKU), *37*
store brand, *49*
supercenter, *44*
thrift store, *53*
variety, *37*
warehouse club, *45*
wholesale-sponsored voluntary cooperative group, *60*

GET OUT AND DO IT!

1. **CONTINUING CASE ASSIGNMENT: GO SHOPPING** The objective of this assignment is to have you take the retailer's, rather than the consumer's, perspective and think about the different strategies that the retailer you selected and another retailer might have, as well as how these strategies result in different retail mixes. The assignment is to conduct a comparison of the retail offerings for a specific merchandise category, such as tablets, men's suits, country/western CDs, women's athletic shoes, or house paint, for two different retailers. The other retailer selected might be a direct competitor using the same format or a retailer selling similar merchandise to a different target market with a different format.

   Your comparison should include the following:
   - The strategy pursued by the two retailers—each retailer's target market(s) and general approach to satisfying the needs of that target market.
   - The retail mixes (store location, merchandise, pricing, advertising and promotion, location of merchandise category in store, store design, customer service) used by each of the retailers.
   - With respect to the merchandise category, a detailed comparison of the variety and depth of assortment. In comparing the merchandise offerings, use a table similar to that in Exhibit 2–2.

To prepare this comparison, you need to visit the stores, observe the retail mixes in the stores, and play the role of a customer to observe the service.

2. **GO SHOPPING** Go to an athletic footwear specialty store such as Foot Locker, a department store, and a discount store. Analyze their variety and assortment of athletic footwear by creating a table similar to that in Exhibit 2–2.
3. **GO SHOPPING** Keep a diary for two weeks of where you shop, what you buy, and how much you spend. Get your parents to do the same thing. Tabulate your results by type of retailer. Are your shopping habits significantly different from or are they similar to those of your parents? Do your and your parents' shopping habits coincide with the trends discussed in this chapter? Why or why not?
4. **GO SHOPPING** Describe how the supermarket where you shop is implementing organic, locally grown, ethnic, and private-label merchandise. If any of these categories of merchandise are missing, explain whether you believe it could be a potential opportunity for growth for this supermarket. Then describe any strategies or activities that you believe are providing a better shopping experience than its competition. If you believe that competing stores are providing a better shopping experience than your store, explain what they are doing, and evaluate whether or not these activities would benefit your supermarket.
5. **INTERNET EXERCISE** Data on U.S. retail sales are available from the U.S. Bureau of the Census Internet site at www.census.gov/retail/. Look at the unadjusted monthly sales by NAICS (found in the Monthly Retail Trade Report section). Which categories of retailers have the largest percentage of sales in November and December (the holiday season)? Do your findings make sense to you? Why or why not?
6. **INTERNET EXERCISE** Three large associations of retailers are the National Retail Federation (www.nrf.com), the Food Marketing Institute (www.fmi.org), and the National Association of Convenience and Petroleum Stores (www.nacsonline.com). Visit these sites, and report on the latest retail developments and issues confronting the industry.
7. **INTERNET EXERCISE** Go to Entrepreneur Magazine's Franchise Zone web page at www.entrepreneur.com/franchise500, and view the top 500 franchises for the past year. How many of the retailers in the top 10 have you patronized as a customer? Did you know that they were operated as a franchise? Look at the lists from previous years to see changes in the rankings. Finally, what is the nature of the businesses that seem to lend themselves to franchising?
8. Bed Bath & Beyond is a category specialist with about 1,000 stores throughout the United States and Ontario, Canada. It sells domestics (bed linens, bathroom and kitchen items) and home furnishings (cookware and cutlery, small household appliances, picture frames, and organizing supplies). What are the SIC and NAICS codes used by this retailer? What other retailers compete against Bed Bath & Beyond, and which store format is implemented by each competitor?

DISCUSSION QUESTIONS AND PROBLEMS

1. Distinguish between variety and assortment. Why are these important elements of the retail market structure?
2. What sorts of competitive pressures are confronting traditional grocery stores? What options do these stores have to ease the pressure?
3. What do off-price retailers need to do to compete against other formats in the future?
4. Compare and contrast the retail mixes of convenience stores, traditional supermarkets, supercenters, and warehouse stores. Can all of these food retail institutions be successful over the long run? How? Why?
5. Why is Walmart, the largest retailer in the world, facing slower growth than in the past? What can it do to accelerate its growth?
6. Why are retailers in the limited-assortment supermarket and extreme-value discount store sectors growing so rapidly? From which retailers are they getting these additional sales?
7. The same brand and model of tablet is sold by specialty computer stores, discount stores, category specialists, online retailers, and warehouse stores. Why would a customer choose one retail format over the others?
8. Choose a product category that both you and your parents purchase (e.g., business clothing, casual clothing, music, electronic equipment, shampoo). In which type of store do you typically purchase this merchandise? What about your parents? Explain why there is, or is not, a difference in your store choices.
9. At many optical stores, you can get your eyes checked *and* purchase glasses or contact lenses. How is the shopping experience different for the service as compared to the product? Design a strategy to get customers to purchase both the service and the product. In so doing, delineate specific actions that should be taken to acquire and retain optical customers.
10. There are services and products involved when buying or renting a car, and in both cases, the customer drives away in a car. But buying a car focuses more on the product, whereas renting involves the service. Explain four ways in which marketing for a rental car company differs from marketing for an automobile dealership.

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