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CHAPTER 2

TYPES OF RETAILERS

ANNOTATED OUTLINE	INSTRUCTOR NOTES
I. Growing Diversity of Retail Formats • Consumers now can purchase the same merchandise from a wider variety of retailers. • The Internet has spawned a new set of retailers offering consumers the opportunity to buy merchandise and services at fixed prices, participate in an auction, submit a "take-it-or-leave-it" bid or research product. • New types of retailers coexist with traditional retailers. Each type of retailer offers a different set of benefits, thus consumers patronize different retailers for different purchase occasions. • As discussed in Boston Consulting Groups Retail 2020 report, the following ten trends are profoundly changing the retail industry. - Empowered, discriminating customers - Ubiquitous connectivity - Buying local, going green - Explosion of consumer data - New age of marketing - Scientific retailing - Growing retailer power - Maturing retail technologies - Blurring boundaries among channels, formats and brands. - Challenged store economics	*News, Retailing View:* *Sobey's strategic direction to stick to a pure grocery offering in smaller retail formats is distinct. Even in large urban and suburban centres, Sobey's stores top out at 45 000 to 50 000 square feet, whereas some competitors have build 100 000 square foot grocery and general merchandise outlets.* *Ask students to name a retailer or a retail format that didn't exist five years ago. Of course, most will name Internet retailers. But push them for traditional retailers as well. Out of the group they give, ask them which they believe will be around in the next five years.* *According to Leger Marketing, half of Canadian consumers use social media every day and more than 60 per cent of consumers use social media to research product.*
A. Expanding Retail Breadth • Over the past 20 years, many new retail formats have been developed. Consumers	*Ask students to name their favourite online retailers. Discuss how this affecting traditional retail.*

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now can purchase the same merchandise from a wide variety of retailers. • Many new types of retailers coexist with traditional retailers. Each type of retailer offers a different set of benefits. Thus, consumers patronize different retailers for different purchase occasions. • The Internet has spawned a new set of retailers offering consumers the opportunity to buy merchandise and services • The greater diversity of retail formats increases competition in the industry and also enables consumers to buy merchandise and services from a retailer that better satisfies their needs for the specific purchase.	
B. Increasing Industry Concentration • While the number of different retail formats has grown, the number of competitors within each format is decreasing. • A few national retailers dominate most formats. (Refer to Exhibit 1-5 for examples) • The trend toward the blurring of retail channels will continue: Drugstores moved to high-end cosmetics; grocery stores invaded the pharmacy business. • Meanwhile, banks have a problem—more and more customers are not coming into their branches. Banking online or by phone is now the norm. In addition, there is competition from retailers (including Loblaws and Canadian Tire) offering banking services that include mortgages and loans that extend the customer relationship. • In response, progressive banks are luring customers with plasma TVs, iPads, and comfy chairs to attract more profitable clients to invest in financial advisory services. Ultimately,	*Ask students where they would go for products such as a stereo system, dishwashing detergent, or computer accessories either in their hometowns or near the university/college. List and survey the retailers mentioned. Discuss common ones that are mentioned have students explain why they choose to shop their. Comment on the prominence of large national retail chains in the students' responses.* *Ask students why they think retailers are blurring channels. Discuss how retailers are leveraging banking services to capture market share.*

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it will be the customer who makes the retail decisions.	
II. Retailer Characteristics • Canadian store-based retailers range from street vendors selling hot dogs to large corporations. • The most basic characteristic of a retailer is its retail mix--the elements used by a retailer to satisfy its customers' needs. (Exhibits 1-8 and 1-9) • Four elements of the retail mix that are particularly useful for classifying retailers are: (1) type of merchandise/services offered, (2) breadth and depth of merchandise offered (3) level of customer service (4) price of the merchandise. • The difference between the retail mix of department and discount stores illustrates the tradeoff retailers make between the price of merchandise they sell and the services they offer to their customers. To make profit and provide these additional benefits to its customers, department stores have to increase the prices of its merchandise to cover the additional costs. This is referred to as the **Price-Cost tradeoff**.	*Ask student to compare the three elements of the retail mix -- the type of merchandise/services offered, the breadth and depth of merchandise sold, and the level of service provided to customers -- of two women's specialty stores in a local mall. Now compare the retail mixes of women's clothing at one of the specialty stores and the local discount stores (Target or Wal-Mart). Use this comparison to illustrate how the competition between the two specialty stores is stronger than the competition between the specialty store and the discount store.*
A. 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 produces and sells. The first two digits identify the firm's business sector, and the remaining four digits identify various sub-sectors.	*Sales of automobiles and auto parts are a lucrative retail commodity that most students would not even consider as significant to the retail sector. (Exhibit 2-1: NAICS Codes for Retailers)* *Ask your students to research financial performance statistics and trends via Industry Canada online portal using NAICS*

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B. Breadth and Depth. • **Breadth** is the number of different merchandise categories a retailer offers. **Depth** is the number of different items in a merchandise category. Each different item of merchandise is called a **SKU (stock keeping unit)**. • **Depth** of merchandise is the number of different items in a merchandise category.	*Ask students to give examples of local retailers with low breadth and high depth, with high breadth and low depth.* *What benefits does high breadth offer to customers? What is the benefit of high depth? Ask student to give an example of a SKU.* ***Refer to Exhibit 2-2**: Breadth versus Depth of Merchandise Lines*
C. Customer Services • Retailers also differ in the services they offer customers. Customers expect retailers to provide some services--accepting credit and debit payments, providing parking, and being open long and convenient hours.	*Discuss the different customer service policies of a national value retailer like Dollarama or local discount store like Giant Tiger and The Bay/Sears or an Internet retailer. Discuss the type of customer that would shop in each store. How are they different and what type of services would they expect? Ask students name retailers that they feel go "above and beyond" or differentiate using customer services. IE: Nordstrom*
D. Cost of Offering Breadth and Depth of Merchandise and Services • When a retailer offers many SKUs, inventory investment increases because the retailer must have back-up stock for each SKU. • Similarly, services attract customers to the retailer, but they are also costly. • A critical retail decision involves the trade-off between costs and benefits of maintaining additional inventory or providing additional services. • To make a profit, retailers that offer broader variety, deeper assortments, and/or additional services need to charge higher prices.	*Customers like wide breadth, deep depth, and a lot of service. Although some customers appreciate having the retailer edit the assortment for them. Ask students why don't all retailers have this type of offering? (Can't be everything, have constraints of money and size of store.)* *Why don't discount stores offer more service? They appeal to a target segment that does not want to pay the cost for better service.* *How can a discount store improve its service image?*
III. General Merchandise Retailers • The major types of general merchandise retailers are discount stores, specialty stores, category specialists, department stores, drug	***Exhibit 2–5** summarizes characteristics of general merchandise retailers that sell through stores.* *For a group class activity, have students research*

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stores, off-price retailers, value retailers and pop up stores. • Many of these general merchandise retailers sell through multi-channels, such as stores, online, catalogues, call centres, social networking, digital displays, and mobile.	*and than present to the class the definition and examples for each of major type of Merchandise Retailer. discount stores, specialty stores, category specialists, department stores, drug stores, off-price retailers, value retailers and pop up stores*
A. Discount Stores • A **discount store** is a retailer that offers a broad variety of merchandise, limited service, and low prices. They offer both private and national brands, but these brands are typically less fashion-oriented than brands in department stores. • Discount stores face intense competition from specialty stores that focus on a single category of merchandise, such as Best Buy, Sports Chek, and Home Depot. • To respond to this competitive environment, discount stores have created more attractive shopping environments, placed more emphasis on apparel, and developed strong private-label merchandise programs.	*Discuss the target markets of the largest general merchandise discount store chains ie: Wal-Mart How will the category specialists Toys 'R' Us affect the retail strategy of general merchandise discount stores?* *What about Internet only retailers? Are discount stores going to succeed in the "clicks" environment?* *In general, what are the factors that contribute to the success of discount stores despite increasing competition from other formats?* *As a class activity, have student read up on Target's quick entry and exit from Canada. Discuss reasons for failure in Candada. Ie: Lack of timing, efficiency, inventory, etc.*
B. Specialty Stores • A **specialty store** concentrates on a limited number of complementary merchandise categories and provides a high level of service in an area typically less than 8,000 square feet. • Specialty stores tailor their retail strategy towards a very specific market segment by offering deep but narrow assortments along with knowledgeable staff. • Because specialty retailers focus on specific market segments, they are vulnerable to shifts in consumer tastes and preferences. • Many manufacturers have opened their own specialty stores in recent years. Tired of being at the mercy of retailers to purchase and merchandise their products, these	*Ask students to give examples of local specialty stores. Why do customers go to specialty stores? What do they like/dislike about them?* *In response to the changing demographics and competitive environment apparel specialty stores, such as Zara and H&M, compete either on the basis of creating and stocking fashion items in a relatively short time, or using lower price points as compared to their competitors.*

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manufacturers and specialty retailers can control their own destiny by operating their own stores. • Apparel and footwear specialty retailers are capturing fewer consumers' dollars because consumers are spending more on necessities such as rent or mortgage, school expenses, and transportation costs and are enjoying eating out, concerts, or clubs. • **Issues in Specialty Store Retailing** Specialty stores tailor their retail strategy toward a very specific market segment by offering deep but narrow assortments along with knowledgeable sales staff. For example, West 49 retails action sports clothing that had its origins with young skateboard enthusiasts. West 49 has very specific strategies to make sure that it appeals to the under-16 demographic. For example, the mall is a perfect location for this retailer because the target age group does not drive and usually relies on a parent to drop them off at the shopping centre.	
C. Category Specialist • A **category specialist** is a discount store that offers a narrow variety but deep assortment of merchandise. These retailers are basically discount specialty stores. • Most category specialists use a self-service approach, but some specialists in consumer durables offer assistance to customers. • By offering a complete assortment in a category at low prices, category specialists can "kill" a category of merchandise for other retailers and thus are frequently called **category killers**. • Many of these category killers are operating in a big-box format. These large format stores typically range in size from approximately 40 000 to 200 000 square feet. • Because category specialists dominate a category of merchandise, they can use their	*Ask students to give local examples of category specialists. How are they similar to specialty stores? Discuss the differences and similarities with discount stores.* *See **Exhibit 2-6** for some big-box comparative size examples.*

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buying power to negotiate low prices, and assured supply when items are scarce. • One of the largest and most successful types of category specialist is the **home improvement centre**. A home improvement centre is a category specialist offering equipment and material used by do-it-yourselfers and contractors to make home improvements. • While merchandise in home-improvement centres is displayed in a warehouse atmosphere, salespeople are available to assist customers in selecting merchandise and to tell them how to use it. • **Issues for Category Specialist** Competition between specialists in each category is very intense as firms expand into the regions originally dominated by another firm. Direct competition focuses on price, resulting in reduced profits because the competitors have difficulty differentiating themselves on other elements of the retail mix. • In response to this increasing competitive intensity, the category killers continue to concentrate on reducing costs by increasing operating efficiency and acquiring smaller chains to gain scale economies. • As retailers try to satisfy today's ever-changing consumer, many are realizing that big is not always better. More and more North American retailers are turning to the smaller format concepts that have been trending in Europe, Asia, and Latin America. Real estate is not always available for big-box players; populations are shifting; and the Web is having a significant impact on consumer in-store expectations and shopping processes.	*Ask students to describe their experience at a home improvement centre such as Home Depot or Staples/Business Depot in terms of merchandise, atmosphere and salesperson service.* *Ask students to reflect how "big box" concept stores are adapting to increasing competition from web and other retail formats.*
D. Department Stores • **Department Stores** are retailers that carry a broad variety and deep assortment, offer some customer services, and are organized into	*Ask students to give examples of local department stores. Why do customers go to department stores? What do they like/dislike about them?*

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separate departments for displaying merchandise.

- Department store chains are very diverse. There are those that carry relatively inexpensive products and compete closely with discount store, such as Sears, and chains that sell very expensive, exclusive merchandise that compete with high-end specialty store chains, such as Holt Renfrew.

- Each department within the store has a specific selling space allocated to it, a POS terminal to transact and record sales, and salespeople to assist customers.

- The major departments are women's, men's, and children's clothing and accessories; home furnishings and furniture; and kitchenware and small appliances.

- In some situations, departments in a department store or discount store are leased and operated by an independent company. A **leased department** is an area in a retail store this is leased or rented to an independent firm.

- Retailers lease departments when they feel they lack expertise to efficiently operate the department.

- **Issues in Department Store Retailing**
  Department stores' overall sales have stagnated and market share fallen in recent years due to increased competition from discount stores and specialty stores and a decline in perceived value for merchandise and services.

- Many consumers believe that department stores are no longer romantic or convenient. Many believe that they are difficult to get to because they are located in larger malls, difficult to find specific merchandise because the same category is often located in several designer departments, and difficult to get professional sales assistance because of labour cutbacks. At the same time, they typically charge higher prices than their discount and specialty store competitors.

Ask students to give local examples of specialty stores. What is the difference between specialty stores and department and discount stores? Where do students buy business suits, dresses, jeans, computers, and electronics? Why do they go to that type of store? Why do some people shop at department, discount, and specialty stores?

Department stores are responding to competition by lowering their traditionally higher prices The Bay is, investing heavily in private label and exclusive product/brand programs, creating excitement by juxtaposing different departments in the same area, and adding new emphasis to some consumer segments by increasing advertising and selection. They are working closely with their vendors to ensure better in-stock positions for fashion merchandise and still reduce average inventory levels.

Great discussion can be generated about Sears Canada and their re-positioning strategy. Have the students discuss the changes Sears is making and look at the annual report which outlines much of the new strategy. Are there any issues, concerns, with the proposed strategy? Is there room for Sears in the Canadian department store sector now that new entrants like Nordstroms and Saks have made plans to enter the marketspace.

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• To deal with eroding market share, department stores are (1) attempting to increase the amount of exclusive merchandise they sell, (2) undertaking marketing campaigns to develop strong images for their stores and brands, and (3) expanding their online presence.	
E. Drugstores • **Drugstores** are specialty stores that concentrate on health and personal grooming merchandise. Pharmaceuticals often represent 50 percent of drugstore sales and an even greater percentage of their profits. • **Issues in Drugstore Retailing** Drugstores, particularly the national chains, are experiencing sustained sales growth because the aging population requires more prescription drugs and the profit margins for prescription pharmaceuticals are higher than for other drugstore merchandise. The non-prescription side of drugstores is also being squeezed by considerable competition from pharmacies in discount stores and supermarkets, as well as from prescription mail-order retailers. • In response, the major drugstore chains are building larger stand-alone stores offering a wider assortment of merchandise, more frequently-purchased food items, and drive-through windows for picking up prescriptions.[14] To build customer loyalty, the chains are also changing the role of their pharmacists from dispensing pills (referred to as count, pour, lick, and stick) to providing health care assistance.	*Ask students if they have shopped on-line for drug store products. What has been their experience? Do they think the Internet is a viable channel for drug store merchandise? Students could look at online retailer Well.ca and compare to Shopper's Drug Mart.*
F. Off-Price Retailers • **Off-price retailers** offer an inconsistent assortment of brand name, fashion-oriented soft goods at low prices.	*Ask students to give examples of local off-price retailers. What do consumers like about off-price retailers? What don't' they like?* *Some examples could be: Big Lots (Liquidation World); XS Cargo; Marshalls, Winners, HomeSense*

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• Off price retailers can sell brand name and even designer-label merchandise at low prices due to their unique buying and merchandising practices. Most merchandise is bought opportunistically from manufacturers or other retailers with excess inventory at the end of the season. • Typically, merchandise is purchased at one-fifth to one-fourth of the original wholesale price. Off-price retailers can buy at low prices because they don't ask suppliers for advertising allowances, return privileges, markdown adjustments, or delayed payments. • Due to this pattern of opportunistic buying, customers can't be confident that the same type of merchandise will be in stock each time they visit the store. • There are 2 types of off-price retailers. They are:	*Refer to **Retailing View 2.1** "Rent Some Luxury"*
G. Close-out retailers • **Close-out retailers** are off-price retailers that sell a broad, but inconsistent assortment of general merchandise as well as apparel and soft home goods.	XS-Cargo, Liquidation World
H. Outlet stores • **Outlet stores** are off-price retailers owned by manufacturers, or by department or specialty store chains. • Outlet stores owned by manufacturers are frequently referred to as factory outlets. • Manufacturers view outlet stores as an opportunity to improve their revenues from irregulars, production overruns, and merchandise returned by retailers. Outlet stores also allow manufacturers some control over where their branded merchandise is sold at discount prices.	Tangers Outlet Mall (Cookstown, Ontario; Bromont,Quebec; Saint-Sauverur, Quebec) Premium Outlets (Halton Hills) Queensborough Landing, Britsh Columbia South Surrey Outlets, British Columbia CrossIron Mills, Alberta
I. Value Retailers • **Value retailers** are general merchandise	*Ask students to describe a value retailer (A Buck or Two, Dollarama) in terms of the merchandise,*

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discount stores that are found in either lower income urban or in rural areas and are much smaller than traditional discount stores. • Value retailers are one of the fastest growing segments in retailing. • Value retailers follow a variety of business models. Although most cater to low-income groups, some draw from multiple income groups and are generally in suburban strip malls.	*atmosphere and service.* *Vancouver-based Your Dollar Store, which has 145 sites is the largest dollar store franchise in Canada.* *Discuss where Giant Tiger would fit? Is it a value retailer or a discount department store?*
J. Pop-up Stores • Temporary stores for hours, days, or month's catering to customers anywhere/anytime. For example a garden centre may have a temporary outlet to capture sales in the spring. A t-shirt retailer may set up a temporary store at a concert. • Pop-up stores are the perfect embodiment of a here today, replaced tomorrow retail ethic, which has built-in obsolescence at the core of the consumer dynamic. Brands and retailers love them because they create buzz, provide an incubator for new ideas, and permit targeted market research. • In July 2015, Soma Beauty (a service business which offers massage therapy and cosmetic acupuncture) negotiated a three month lease as a pop up store in a Holt Renfrew franchise located in downtown Calgary with hopes of extending its lease if the business model concept was successful. The strategy for Soma was required as retail rental space along with a downturn in the economy forced the company to come up with a creative solution to identify a location (Place) for their business operations.[25]	*Ask students to suggest types of pop-up stores and what are the advantages to this retail format?* *Article from The Toronto Star: http://www.thestar.com/life/fashion_style/2014/05/13/popup_stores_revamp_the_designer_landscape.html* *Great example to look at is Kitchen Stuff Plus and their use of pop up stores to scope out new potential store locations.*
IV. Food Retailers	*Ask students to compare food retailers on breadth, depth, service, and price.*

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• Discount stores and warehouse clubs are significantly changing consumers' food purchasing patterns because they too sell food. At the same time, traditional food retailers carry many non-food items. • The world's largest food retailer is Wal-Mart with supermarket-type sales in the US alone equalling $188 billion.	***Exhibit 2-9*** *summarizes various elements of different types of food retailers.*
A. Supermarkets • A **conventional supermarket** is a self-service food store offering groceries, meat, produce, and limited non-food items. These food retailors typically carry about 30 000 SKUs. • Conventional supermarkets are differentiating their offerings by (1) emphasizing fresh perishables, (2) targeting health-conscious and ethnic consumers, (3) providing better in-store experience, and (4) offering more private-label brands. • **Fresh Merchandise** Fresh-merchandise categories are the areas around the outer walls of a supermarket, known as the *power perimeter*, that include dairy, bakery, meat, florist, produce, deli, and coffee bar. These departments attract consumers and are very profitable. Another example of emphasis on "fresh" is the offering of meal solutions for time-pressured consumers. • **Health/Organic Merchandise** Conventional supermarkets are also offering more natural, organic, and fair-trade foods for the growing segment of consumers who are health and environmentally conscious.[34] *Fair trade* means purchasing from factories that pay workers a living wage, and offer other benefits such as on-site medical treatment. • **The *locavore movement*** focuses on reducing the carbon footprint caused by the transportation of food throughout the world. Food miles are calculated using the distance	Have students discuss the grocery sector in Canada. List the major three food retailers, Loblaws, Sobey's and Metro and discuss the breakdown of the different banners that each retailer utilize. What if any are the differences between the various banners? In Canada, just over 40 percent of consumers think that private-label brands are a good alternative to national brands, versus 37 percent of Americans.[35] According to a March 2011 report by Nielsen, titled *The Rise of the Value-Conscious Shopper,* 60 percent of Canadians indicated that their purchase of private-label products increased during the recession, while 95 percent indicated that they will continue purchasing private-label products post-recession.

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that food travels from the farm to the plate. Many Canadians appreciate the idea of supporting local businesses, but they also want the variety of products they can find in their grocery store. It is difficult to maintain a balance between buying locally and maintaining such variety.

- **Private-Label Merchandise** Conventional supermarket chains are leveraging their quality reputation to offer more private-label merchandise. Private-label brands 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. 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 experience through better store ambience and customer service is another approach that supermarket chains use to differentiate themselves from low-cost, low-price competitors. Grocery stores are increasingly incorporating "food as theatre" concepts, such as open-air market designs, cooking and nutrition classes, demonstrations, babysitting services, and food tasting.

- Some conventional supermarkets are very promotional. They offer weekly deals often promoted through circulars and on their websites.. This is called a **high-low pricing strategy**.

- Other conventional supermarkets use very few promotions and sell almost all merchandise at the same price every day. This is called an **everyday low pricing (EDLP) policy**. Typically, everyday prices in these supermarkets are lower than regular prices in promotional supermarkets.

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• **Limited-assortment supermarkets** (also called *extreme-value food retailers*) stock only about 2000 SKUs.[31] Canadian retailer M&M Meat Shops is a good example of a successful limited-assortment supermarket.	
B. Big Box Food Retailers • Over the past 25 years, supermarkets have increased in size and have begun to sell a broader variety of merchandise. In 1979, conventional supermarkets accounted for 85 percent of supermarket sales. • By 1998, only 41 percent of supermarket sales were in conventional supermarkets due to the growth of "big box" food retailing formats -- supercentres, and warehouse clubs.	*Ask students to give examples of local superstore/combination stores.* *Ask students about why they would continue to shop at conventional grocery stores. Alternatively, why would they shop for food at supercentres, and warehouse clubs? What types of needs are fulfilled by conventional grocery stores as compared to the big box food retailers? Based on these discussions, would conventional grocery stores be driven out of business by the big box food retailers?*
1. Supercentres • **Supercentres** are 150,000 to 220,000 square foot stores that offer a wide variety of food and non-food merchandise. The largest super centres are Wal-Mart supercentres and Loblaws. • By offering broad assortments of grocery and general merchandise under one roof, super centres provide a one-stop shopping experience. • However, since supercentres are very large, some customers find them inconvenient because it can take a long time to find the items they want. • With the popularity of the superstore concept in Canada in the 1990s, Loblaws expanded its product offering by including clothing, pharmaceuticals, and other non-food items. By maintaining its quality and position through a three-part strategy of innovation, market domination, and reduction of costs, Loblaws remains relatively unchallenged in the Canadian grocery retail marketplace.	*The supercentre is one of the fastest growing retail formats. Why is the supercentre more attractive than a hypermarket in North America, but not in Europe? What are benefits to consumers shopping in supercentres versus conventional grocery stores? What are the disadvantages?*

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• **Hypermarkets** are also large (100,000 to 300,000 square feet) combination food and general merchandise retailers. They typically stock less SKUs than supercentres. Typically stock less than supercentres, between 40 000 and 60 000 items ranging from groceries, hardware, and sports equipment, to furniture and appliances, computers, and electronics.	
2. Supercentres versus Hypermarkets • Hypermarkets, per se, are not prevalent in Canada or the U.S. though the differences between a French hypermarket and a Wal-Mart or Loblaws supercentre are sometimes difficult to distinguish. • Both hypermarkets and supercentres are large, carry grocery and general merchandise categories, are self-service, and are located in warehouse-type structures with large parking facilities. • Hypermarkets are often larger, but carry fewer items. The merchandise mix is different as well. Hypermarkets carry a larger proportion of food items than supercentres.	
3. Warehouse Club • A **Warehouse club** is a retailer that offers a limited assortment of food and general merchandise with little service at low prices to ultimate consumers and small businesses. • Stores are large (about 100,000 square feet) and located in low rent districts. • Warehouse clubs reduce prices by using low-cost locations and store designs. They reduce inventory holding costs by carrying a limited assortment of fast-selling items. • Most warehouse clubs have two types of members: wholesale members who own small-businesses and individual members who	*Ask students to give local examples of warehouse clubs. What is the target market for warehouse clubs? Consumers with larger families and small businesses.* *Costco is the fifth largest food retailer in Canada, with estimated food sales.* *Discuss the factors that go into creating this successful retail model. Use the 6 P's to discuss.* *Are warehouse clubs wholesalers or retailers? When they sell to small businesses they are wholesalers.*

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purchase for their own; Costco. Typically members must pay an annual fee of $55 to $110.	
C. Convenience Stores • **Convenience stores** provide a limited variety and assortment of merchandise at a convenient location in a 2,000-to-3,000-square-foot store with a speedy checkout. They are a modern version of the neighbourhood mom-and-pop grocery/general store. • Convenience stores enable consumers to make purchases quickly without having to search through a large store and wait in long checkout lines. • Convenience stores only offer a limited assortment and variety; they charge higher prices than supermarkets.	*Ask students to give examples of local convenience stores. Why do customers go to convenience stores? What do they like/dislike about them? In general, what is so "convenient" about convenience stores?*
D. Issues in Food Retailing • The primary issue facing food retailers in general, and supermarket and convenience store retailers in particular, is the increasing level of competition from other types of retailers. • As mentioned earlier, supercentres in North America and hypermarkets in the rest of the world are growing at a rapid pace. In Canada, this growth has been spurred by Walmart's aggressive supercentre strategy. • Competition is coming from other sources as well. Other retailers such as department stores, drugstores, convenience stores, gas stations, and even dollar stores are increasingly displaying food items on their shelves. In addition, fast-food restaurants such as Subway sandwich shops have positioned themselves as a healthy food alternative. • In response to these competitive pressures, convenience stores are taking steps to decrease their dependency on gasoline sales,	*How do restaurants and fast-food retailers compete against the traditional supermarkets? What is your supermarket doing in terms of fighting back?*

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tailoring assortments to local markets, and making their stores even more convenient to shop. To get gasoline customers to spend more on other merchandise and services, convenience stores are offering more fresh food and healthy fast food that appeals to today's on-the-go consumers, especially women and young adults. • Traditional grocery chains are fighting back by making significant investments in providing meal solutions, either hot food or partially cooked entrées. The market for prepared foods can be quite profitable. Profit margins on prepared foods are higher than most other grocery categories. • Also, although shoppers rarely visit a supermarket in search of prepared foods alone, those who do spend almost 40 percent more than those who seldom or never purchase prepared foods.	
V. Non-store Retail Formats • The major types of non-store retailers are electronic retailers, catalogue and direct-mail retailers, direct selling, television home shopping, and vending machines.	*Ask students if they have bought any product through the Internet, mail-order catalogues or cable TV networks. Engage in a discussion on the types of products most bought through these formats.*
A. Electronic Retailing/E-tailing • *Electronic retailing* (also called *e-tailing*, *online retailing*, and *Internet retailing*) is a retail format in which the retailers communicate with customers and offer products and services for sale over the Internet. • Shopping over the Internet provides the safety and convenience of catalogues and other non-store formats. • However, the Internet, compared with store and catalogue channels, also has the potential to offer a greater selection of products and more personalized information about products and services. • **Broader and Deeper Assortments** One benefit of the Internet channel, compared with other	*For example, Amazon.com provides customers with a personalized landing page with information about books and other products of interest based on the customer's past purchases and search behaviour on the website. Amazon also sends interested customers customized email messages that notify them that their favourite author or recording artist has published a new book or released a new CD.* *Online Retail in Canada Despite Canada's*

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channels, is the vast number of alternatives that consumers can consider. The number of SKUs available in a store is limited by the store's size. The number of pages in a catalogue limits that channel.

- **More Timely Information for Evaluating Merchandise** An important service offered to customers is providing information that helps them make better buying decisions. The retail channels differ in terms of how much information customers can access. The amount of information available through the store channel is limited by the number of sales associates and the space for signage. Similarly, the information available through a catalogue channel is limited by the number of pages in the catalogue. In contrast, the information provided through the Internet channel is unlimited. The vast amount of information available through the Internet channel enables customers using this channel to solve problems rather than just get information about specific products.

- Finally, consumers can access information from other consumers through the Internet channel—information that may be viewed as less biased than information provided by a retailer or manufacturer. Many retailers provide an opportunity for customers to post reviews of products or services they have bought.

- **Personalization** Due to the Web's interactive nature, the most significant potential benefit of the Internet channel is its ability to personalize merchandise offerings and information for each customer electronically. Customers control some of this personalization. Customers shopping on an Internet channel can drill down through Web pages until they have enough information to make a purchase decision. In addition, when using the Internet channel, customers can format the information so that it can be effectively used when they are comparing alternatives.

- The interactive nature of the Internet also provides an opportunity for retailers to personalize their offerings for each of their customers.

reputation as one of the world's most wired and digitally social people, Canadians were projected to spend $25.37 billion online in 2015, or just 5.9 percent of total retail sales (Exhibit 2–10), according to eMarketer.[55] Even though Canadians spend more time online compared with all other countries, with the average being 24 hours per week, online sales in Canada have some catching up to do. The online market is not as mature as the United States, where a long history of catalogue sales, better shipping infrastructure, and other factors have made online buying a fast friend to many consumers. In the US, sales for 2015 were projected to be approximately $349 billion.

Large Canadian retailers have struggled to serve their customers on the Web: Canadian Tire abandoned online selling three years ago, and while it now has plans to return, the only thing customers can buy through its website are tires. Hudson's Bay Company is back online after shutting down its online efforts in 2009, and Shoppers Drug Mart offer only e-flyers and directions to their nearest stores online. Their US peers, meanwhile, operate full e-stores.

Some blame the lack of a catalogue-buying tradition in Canada; others blame our sprawling geography that can make shipping slow and expensive. Four in ten dollars spent online in Canada goes abroad, meaning a large portion of spending isn't going back into the Canadian economy.[61] Getting e-commerce right needs to be part of making the Canadian retail sector more productive and competitive (see Exhibit 2–11).

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B. Catalogue Channel • **Catalogue Retailing** is a nonstore retail format in which the retail offering is communicated to a customer through a catalogue. • **Safety** Security in malls and shopping areas is becoming an important concern for many shoppers, particularly the elderly. Non-store retail channels enable customers to review merchandise and place orders from a safe environment—their home.[68] • **Convenience** Catalogues offer the convenience of looking at merchandise and placing an order from almost anywhere 24/7. However, catalogues are easier to browse through than websites. Consumers can refer to the information in a catalogue anytime by simply picking it up from the coffee table. They can take a catalogue to the beach and browse through it without an Internet connection. • Finally, the information in a catalogue is easily accessible for a long period of time. However, it is important to note that the use of smartphones and tablets has changed how consumers can access and view information. • **Direct-mail Retailers** communicate with their customers using letters, brochures and newer electronic communication. • Major catalogue retailers have embraced a multichannel strategy by integrating the Internet into their catalogue operations. • The Internet has become a natural extension to most cataloguers' selling strategies; 95 percent of catalogues describe themselves as multichannel retailers, with 53 percent defining their companies as catalogue/Internet/retail and 42 percent as catalogue/Internet.	*The IKEA catalogue, considered to be the main marketing tool of the company, was first published in Sweden in 1951 and is distributed both by mail and in-store for no charge to its customers. The Swedish home furnishing retailer printed and distributed its IKEA catalogue to over 219 million consumers worldwide in 34 languages and 49 countries in 2016, and inspired people around the world to create homes that they love.[63] IKEA customers have also been able to access the catalogue online since 2011 and can now also use the IKEA Catalogue App on their smartphone and tablet to scan select pages to unlock films, interactive experiences, photo galleries, and more home furnishing inspiration.[64]*

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1. Types of Catalogue and Direct-Mail Retailers • Two types of firms selling products through the mail are (1) general merchandise and specialty-catalogue retailers and (2) direct mail retailers. • **General Merchandise Catalogue Retailers** offer a broad variety of merchandise in their catalogues that are periodically mailed to their customers (e.g., Eddie Bauer). • **Specialty-catalogue Retailers** focus on specific categories of merchandise, such as lingerie (Victoria Secret), woodworking and gardening tools (Lee Valley), and seeds (Stokes). • **Direct-mail Retailers** typically mail brochures and pamphlets to sell a specific product or service to customers at one point in time. Most direct-mail retailers are primarily interested in making a single sale from a specific mailing, while catalogue retailers typically maintain relationships with customers over time.	*Ask students about products they or someone in their household usually purchase through a catalogue. Do they think there is a good on-going relationship between the catalogue marketer and the consumer? What are the benefits and/or disadvantages in buying through catalogues?* *To test if students have understood the difference between catalogue retailing and direct-mail retailing, ask them the following: If the local bank sends information on its various accounts and other services through the mail along with an offer of a free gift for opening a new account, are they engaged in catalogue or direct-mail retailing? [Some finer points may emerge in the ensuing discussion, such as direct-mail may be more commonly used when the objective is to get a prospective customer to subscribe something (e.g., magazines), join something (e.g., bank or insurance company), or give something (e.g., charitable organization).*
	Ask students: If the course schedule listing for each semester also had a corresponding list of prescribed texts for each course at the same prices as the campus bookstore and a convenient toll-free telephone number, would they buy their text through this catalogue? Why or Why not?
C. Direct Selling • **Direct Selling** is a retail format in which a salesperson, frequently an independent businessperson, contacts a customer directly in a convenient location, either at the customer's home or at work, and demonstrates merchandise benefits, takes an order, and delivers the merchandise to the customers. • Direct selling is a highly interactive form of retailing in which considerable information is conveyed to customers through face-to-face discussions with a salesperson. However, providing this high level of information,	*Ask students if they have experienced direct selling, either the party plan system (e.g., Tupperware or Weekender) or multilevel selling (e.g., Amway) and have them describe their experiences.* *The Canadian Direct Sellers Association (DSA) represents 50 companies with sales revenue of*

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including extensive demonstration, is costly. • Two types of direct selling are **party plan** and **multilevel selling**. • In a **party plan system**, salespeople encourage customers to act as hosts and invite friends or co-workers to a "party" at which the merchandise is demonstrated in a party-like atmosphere. The host or hostess receives a commission for arranging the meeting. • In a **multilevel network**, people serve as master distributors, recruiting other people to become distributors in their network. The master distributors either buy merchandise from the firm and resell it to their distributors or receive a commission on all merchandise purchased by the distributors in their network. • Some multilevel direct selling firms are illegal pyramid schemes. A **pyramid scheme** develops when the firm and its program are designed to sell merchandise and services to other distributors rather than to end users. The founders and initial distributors in pyramid schemes profit from the inventory bought by later participants but little merchandise is sold to consumers who use it.	*over $2 billion annually and accounts for over 16 percent of non-store retail sales in Canada.[69] According to the Canadian DSA, over 900 000 Canadians are associated with the direct selling industry, and 91 percent of direct sellers in this country are women.[70] Annual US sales through direct selling are over $30 billion; worldwide, they are more than $100 billion.[71] The largest categories of merchandise sold through direct selling are personal care (e.g., cosmetics, fragrances), home and family care (e.g., cooking, kitchenware), wellness (e.g., weight loss products, vitamins), and leisure and educational items (e.g., books, videos, toys).*
D. Television Home Shopping • **Television Home Shopping** is a retail format in which customers watch a TV program demonstrating merchandise and then place orders for the merchandise by telephone. The three forms of electronic home shopping retailing are: (1) **dedicated cable channels**, the Canadian Shopping Channel broadcasts 18 hours a day and is supported by online sales through www.theshoppingchannel.com, (2) **infomercials** (TV programs, typically 30 minutes long), and (3) **direct-response advertising** (advertisements on TV and radio that describe products and provide and opportunity for consumers to order them). • The major advantage of TV home shopping compared to catalogue retailing is that	*Ask students if they have bought anything in response through cable TV advertisements, infomercials or through direct-response advertisements. What types of merchandise is usually bought more through these formats? Why are these formats more appropriate for such merchandise?* *Have students view the shopping channel or visit the website. See textbook for a list of Shopping Channel Facts.*

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consumers can see the merchandise demonstrated on the TV screen. • However, consumers can't examine a particular type of merchandise or a specific item when they want to, as they can with catalogues.	
E. Vending Machine Retailing • **Vending Machine Retailing** is a non-store format in which merchandise or services are stored in a machine and dispensed to customers when they deposit cash or use a credit card. Vending machines are placed at convenient, high-traffic locations such as in the workplace or on university/college campuses and primarily contain snacks or drinks. • Technological developments in vending machine design may result in long-term sales growth. • A current trend in Canada is to offer a healthier alternative in vending machines. The problem is these healthier alternatives end up costing more since they have a shorter shelf life and they are not as profitable as sugary treats. Thus consumers have to pay more for healthier food alternatives in vending machines.[80]	*Ask students about the types of products they would like to see offered through convenient vending machines. Explore the current limitations (regulatory or technological) due to which such products are not currently offered through vending machines.* *Can students name retailers that are using vending machines - Best Buy, Marks Work Wearhouse, Apple, Sephora.* *Zip.ca – DVD rentals is another great discussion about changes in the marketplace making use of this changing retail format.* *Although $25.6 billion in goods is sold annually through vending machines in North America, vending machine sales growth is relatively slow, less than 5 percent, and closely mirrors the growth in the economy.[77] Vending machine sales growth has been declining during the past few years. The vast majority of vending machine sales are cold beverages, candy, and snacks, but sales in these categories are being adversely affected by growing concerns among consumers about healthy eating habits.*
VII. Services Retailing • **Service Retailers** are firms that primarily sell services rather than merchandise and are a large and growing part of the retail industry. • Trends contributing to the growth of services retailing include: aging population, younger people spending more time and money on health and fitness, and parents in two-income families requiring household services.	*Ask students to give examples of service retailers. What is an example of a services retailer with a broad variety? Narrow variety? Deep assortment? Shallow assortment?* *Compare the elements in the retail mix -- location, merchandise assortment, pricing, promotion, visual merchandising and services -- in merchandise and services retailers. How are they*

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• Many organizations such as banks, hospitals, health spas, doctors, legal clinics, entertainment firms, and universities that offer services to consumers traditionally haven't considered themselves as retailers. Due to increased competition, these organizations are adopting retailing principals to attract customers and satisfy their needs. • All retailers provide goods and services for their customers. However, the emphasis placed on the merchandise versus the services differs across retail formats. Supermarkets and warehouse clubs consist of self-service stores that offer very few services. Optical centres and restaurants lie somewhere in the middle of the merchandise /service continuum. Retailers whose offering is primarily services include airlines and banks.	*the same and how are they different?* ***Exhibit 2-13*** *provides a merchandise/service continuum that can be used for discussion. Is this continuum still relevant?*
A. Differences Between Services and Merchandise Retailers • Four important differences in the nature of the offering provided by services and merchandise retailers are: (1) intangibility, (2) simultaneous production and consumption, (3) perishability, and (4) inconsistency of the offering to customers.	
1. Intangibility • Services are generally intangible -- customers cannot see, touch, or feel them. Services are performances or actions rather than objects. • Intangibility introduces a number of challenges for services retailers. It is difficult for customers to evaluate services before they buy them, or even after they buy and consume them. Services retailers often use tangible symbols to inform customers about the quality of their services. • Services retailers also have difficulty in evaluating the quality of services they are providing. To evaluate the quality of their offering, services retailers place emphasis on	*Ask students to give an example of a service that is intangible. What problems does intangibility cause for the services retailer?*

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soliciting customer evaluations and complaints.	
2. Simultaneous Production and Consumption • Service providers create and deliver the service as the customer is consuming it. The simultaneity of production and consumption creates some special problems for services retailers. • First, the customers are present when the service is produced, and may even have an opportunity to see it produced, and in some cases may be part of the production process. • Other customers consuming the service at the same time can affect the quality of the service provided. • Finally, the services retailer often does not get a second chance to satisfy the needs of their customers. While customers can return damaged merchandise to a store, customers that are dissatisfied with services have limited recourse. Thus it is critical for services retailers to get it right the first time. • Because services are produced and consumed at the same time, it is difficult to reduce costs through mass production.	*What problems does simultaneous production cause for the services retailer?*
3. Perishability • Because the creation and consumption of services is inseparable, services are perishable. They can't be saved, stored, or resold. This is in contrast to merchandise, which can be held in inventory until a customer is ready to buy it. • In addition, the demand for service varies considerably over time. Thus, service retailers often have time when their services are underutilized and when they have to turn customers away because they cannot accommodate them. • Service retailers use a variety of programs to match demand and supply. The also attempt to	*What problems does perishability cause for the services retailer? Give examples of retailers for which perishability is a real problem? What do these retailers do to minimize the problems?*

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make customers' waiting time more enjoyable.	
VIII. Multichannel Retailing A **multichannel retailer** is a retailer that sells merchandise or services through more than one channel, to attract and satisfy more retailers	*Ask students to discuss a specific multichannel retailer and indicate their advantages with regard to each of the nine issues.* *-browse* *- touch* *- service* *- payment* *- immediacy* *- entertainment* *- conveniences* *- safety* *- visual presentation*
A. Reasons for Becoming a Multi-Channel Retailer • Traditional store-based and catalogue retailers are placing more emphasis on their electronic channels and evolving into multi-channel retailers for five reasons. • First, the electronic channel gives them an opportunity to reach new markets. • Second, they can leverage their skills and assets to grow revenues and profits. • Third, an electronic channel overcomes some limitations of their traditional formats. • Fourth, an electronic channel enables retailers to gain valuable insights into their customers' shopping behaviours. • Finally, providing a multi-channel helps build "share of wallet." Share of wallet is the percentage of total purchases made by a customer in a given store.	*Ask students to consider examples of specialty stores that also have an Internet presence. Or, alternatively, a visit to the website of such stores and evaluation of the services offered online and in-store can be a take-home assignment.* *Ask students ways in which retailers are enhancing their online presence.* • *New information – regularly updating events, products, services, limited-availability product promotions and limited-time-offer prices.* • *Track & Measure response – promotional codes and downloadable vouchers as well as site analytics.* • *Email information & offers* • *Give customers and consumers a voice – Invite customer reviews and comments on website, in store, on products and services.* • *VIP and loyalty programs* • *Social media – growing relationships through active conversations with customers with customers in the social media landscape* *Mobile devices – use of text messages and quick loading mini sites designed for easy reading on small screens.*
1. Expanding Market Presence • Adding an electronic channel is particularly attractive to firms with strong brand names but	• By offering unique merchandise through an electronic channel, retailers can differentiate themselves and reduce the potential for price competition.

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limited locations and distribution.	• Three approaches for offering unique merchandise are: (1) private label merchandise, (2) branded variants or co-branded merchandise, and (3) pre-packaged assortments.
2. Leveraging Existing Assets • Store-based and catalogue retailers possess superior assets, such as well-known brand name, customer information, vendor relationships, buying power, and supply chain systems. • In addition, traditional retailers can use their existing format to economically create awareness for an electronic channel. • Store-based retailers can also leverage their stores to lower the cost of fulfilling orders and processing returned merchandise.	*If the same brand of an electronic product is available (including shipping and handling) for 10% less in an unknown Internet store as compared to Best Buy, would you buy it? Why, or why not?*
3. Overcoming Limitations of Existing Format • One of the greatest constraints facing store-based retailers is the size of their stores. The amount of merchandise that can be displayed and offered for sales in stores is limited. By blending stores with Internet-enabled kiosks, retailers can dramatically expand the assortment offered to its customers. • The availability and knowledge of sales associates can vary considerably across stores or even within a store at different times during the day. This inconsistency is most problematic for retailers selling new, complex merchandise. Kiosks can be designed and used by sales associates and customers for product information.	
4. Insights into Customer Shopping Behaviour • An electronic channel can provide valuable insights into how and why customers shop and	*One common phenomenon in Internet retailing is known as "abandoned shopping carts." This*

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are dissatisfied or satisfied with their experiences. • The electronic channel offers the opportunity to collect more detailed information about customer preferences. • An electronic channel can be used to get both positive and negative feedback from customers.	*occurs when customers select items from the retailers site, place it in a shopping basket, but either before checkout or during checkout, decide not to buy. Consider the reasons why such customers did not complete their orders.* *Ask students how investing in retail analytics can help retailers. Here are a few:* • *Improves inventory management based on historical analysis.* • *Targets customers more effectively* • *Determines lifetime value of customers based on preferences* • *Differentiates products to provide personalized customer service* • *Improves marketing and merchandising efforts* • *Improves decision making process, allowing managers and employees to react more proactively to trends.* *Kelly Putter. "How well do you know your customer". Canadian Retailer. September/October 2010.*
5. Increasing Share of Wallet • While an electronic channel may lead to some cannibalization, its synergistic use with other channels can result in consumers making more purchases from a retailer. The electronic channel drives more purchases to the stores and the stores drive more purchases to the web site.	
B. Tuning into the Multichannel Universe • Consumers desire a seamless experience when interacting with multichannel retailers. They want to be recognized, whether they interact with a sales associate or kiosk in-store; log onto the retailer's website through a PC, smartphone, or tablet; or contact the retailer's call centre by telephone. • Consumers may want to buy a product through the retailer's Internet or catalogue channel, and pick it up or return it to the local store; find out if a product is available at a local store; and, when unable to find a product in a store, determine whether it is	*Ask students to name retailer's that are leading or losing when it comes to attempting to give it's customers a seamless experience across different channels.*

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available for home delivery through the retailer's Internet channel. • The retail store is not dead and it's not going away. But it will evolve as the lines between the physical and virtual worlds continue to blur and customers demand an integrated experience across channels. • Retailers therefore need to consider how to connect with customers across channels to provide them with an immersive and meaningful brand experience.	
C. M-Commerce • **M-commerce** the purchase of products and services through mobile devices. • Mobile's influence is expected to grow exponentially over the next few years, driven by a perfect store of rising smartphone penetration, increased adoption by shoppers, decreasing barriers to use, and improved mobile functionality for retail applications. • Mobile offers retailers a means to influence sales revenue and potentially improve conversion rates by engaging with customers and thereby significantly improving the customer experience. • Many retailers are currently focusing on optimizing their websites for mobile devices. Strategies vary from having a mobile site with the same functionality as their websites, to developing sites that focus on what consumers would mainly need to access when they are out and about doing their shopping (for example, store locations, store hours, store contact information, etc.). • According to Deloitte's research and analysis, the impact of smartphones isn't just on direct sales generated through the mobile channel, but also on the influence they exert over traditional in-store sales to drive in-store conversion and in-store average order size.[92] • Mobile's influence is expected to grow exponentially over the next few years, driven by a perfect storm of rising smartphone penetration, increased adoption by shoppers,	*The adoption of mobile devices by consumers is growing at a rapid rate. According to research conducted by Deloitte Consulting LLP, digital influence factors (defined as smartphones, tablets and labtops) accounted for 36 percent (1.1 trillion) of all retail store sales in the United States in 2013.[91] Mobile is a natural fit for the Canadian consumer, as Canadians are adopting mobile technology at a similar pace to the United States.* • *As of 2015, 68 percent of Canadians have smart phones, and it is estimated that "around 3 million Canadians bought their first smartphone in the past six months."[93]* • *Roughly 58 percent of consumers who own a smartphone have used it for store-related shopping.* • *Twenty-three percent of smartphone users who mobile-shop will research on the smartphone, visit the store to check out the product, and then purchase online (using a computer or Internet-enabled device).[94]* • *Among smartphone shoppers, the percentage who use their smartphones for shopping varies by store category, from 49 percent in electronics and appliances stores to 19 percent in convenience stores and gas stations.* • *Once consumers start using their smartphones for shopping, they tend to use them a lot—typically for 50 to 60 percent of their store shopping trips, depending on the store category.* *Ask students how they use their mobile device*

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decreasing barriers to use, and improved mobile functionality for retail applications.[9] • Store-based retailers should consider mobile as a strategic imperative because it can impact the entire business, not just online or m-commerce. Retailers need to understand how their consumers may use their mobile devices, whether it is as simple as store locations or as complex as understanding what subset of their inventory consumers would be likely to buy through a mobile device. • The mobile landscape is changing at a rapid rate, and retailers need to consider the ways in which they can leverage the mobile capabilities to best serve their customers. Mobile offers retailers a means to influence sales revenue and potentially improve conversion rates by engaging with customers and thereby significantly improving the customer experience.	*towards shopping. Survey and discuss how using Mobiles influences their shopping habits.* *Deloitte's Mobile Influence Survey 2012 indicated that over 60 percent of mobile shoppers use their smartphones while in a store, and another 76 percent while on the way to a store. Retail analysts suggest that today's consumers merely use retail stores as a showroom before buying elsewhere.* *Deloitte's survey results echoed this threat, finding that 37 percent of shoppers surveyed who used a smartphone on their last trip used an external app or website (such as a price comparison tool or deal finder).[97,98] This indicates consumers often use other websites or mobile apps due to the retailer being unable to provide the appropriate digital tools to aid in the consumer's purchase decision process.*
D. Omni-Channel Retailing **Omni-Channel retailing** requires seamless integration between all channels so that shoppers can shop any way they want with the exact same results. • With an omni-channel strategy, retailers allow customers to experience the brand, not a channel within the brand. Merchandise, promotions, pricing, customer service, and communications are not channel specific, but rather are consistent across all of the retail channels, not just one or two. • With an omni-channel strategy, each channel needs to be aware of the other if experience is to be seamless. • Challenge for retailers is to tell a continuous story that plays out whenever or wherever the consumer interacts with their brand. • In order to employ a successful omni-channel retail strategy, an organization must consider five factors: • **Evaluate synergies across channels.**	*Discuss the challenges that may come from pursuing an omni-channel strategy.* *Can students name retailers that are pursuing this strategy or retailers that should pursue this strategy? Discuss.*

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• **Find the best operating methods.** • **Choose technologies/processes for each operating method.** • **Define optimal flow paths.** • **Choose specific technologies**.	
E. In-store Kiosks **In-store kiosks** are spaces located within stores containing a computer connected to the store's central offices or to the Internet. • In-store kiosks can be used by customers or sales people to order merchandise through a retailer's electronic channel, check on product availability at distribution centers or other stores, get more information about the merchandise, and scan bar codes to check the prices.	*Ask students if they have used an in-store electronic kiosks. Who was the retailer and were you a satisfied customer? Describe your experience.* *Retailers who have in-store electronic kiosks include the Bay and Chapters.*
F. Customer Service Using Technology • To locate merchandise • To determine availability of specific products, brands and sizes. • To automate store services such as gift registry, rain-checking, credit applications, submit pre orders for bakeries and delicatessens.	
1. Integrated Concept • Retailers must provide the same face to customers across all channels. • Retailers need to integrate customer databases and systems used to support each channel. This includes (1) brand image, (2) merchandise assortment, (3) pricing and (4) have a customization approach.	
2. Brand Image • Multi-channel retailers need to project the same image to their customers through all channels. • Brand name and image are important for electronic channel since unlike a store channel competing with a limited set of local retailers,	*Ask students which Internet retailers have the strongest brand name and image for their target market? Which of these are clicks only? Which are bricks and clicks?* *Bricks and clicks generally have the lead in brand awareness.* *Ask students to visit www.mec.ca. How has this E-tailer built trust.?*

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the electronic channel competes against over 100,000 alternative URLs consumers can visit. Thus, it is important for a retailer operating an electronic channel to be well known. • Second, a trustworthy reputation is important for operating an electronic channel. Buying merchandise over the Internet is risky because customers cannot see the merchandise before they buy it.	
3. Merchandise Assortment • Typically customers expect that everything they see in a retailer's store will also be available on their web site. A significant product overlap across channels reinforces the "one brand" image in the customer's mind. The trend now is to integrate the merchandise offerings across channels. • Other multi-channel retailers use their Internet channel to increase revenues by expanding the assortment they can offer to customers. • Many multi-channel retailers have tailored the assortments sold on their web site to only include products their customers are likely to buy over the Internet.	
4. Pricing • Customers expect pricing consistency across channels (excluding shipping charges and sales tax). However, in some cases, retailers need to adjust their pricing strategy because of competition they face in different channels • Retailers with stores in multiple markets often set different prices for the same merchandise to deal with differences in local competition. Multi-channel retailers may have difficulties sustaining these regional price differences, since customers can easily check prices on the Internet. • Multi-channel retailers are beginning to offer new types of pricing, like auctions, that take	

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advantage of the unique properties of the Internet.	
5. Reduction of Channel Migration • The availability of an Internet channel enables customers to easily search for information about products and their prices. • Many consumers now access the Internet on smartphones or tablets to browse social networks or shopping applications to find product information, read consumer reviews, compare prices or buy items. • Retailers want customers to both search for information and complete the transaction through their channels, but the low cost of searching on the Internet increases the opportunity for channel migration. Thus, customer retention during shopping episodes is a challenge for multi-channel retailers. • Two approaches that multi-channel retailers can use to reduce channel migration are (1) to offer uniquely relevant information based on proprietary data the retailer has collected about the customer, and (2) promote private-label or exclusive merchandise that can be purchased only from the retailer.	*Have students read and discuss Retailing View 2.3 how Canadian Tire is dealing with e-commerce. (Excerpt from Retailing View 2.3)* *The jury is not out as to whether or not e-commerce is here to stay," MacDonald says. "The jury is out on what form it will ultimately take." He also reiterates that a multi-channel service model has its advantages in sectors beyond retail. "Look at e-commerce when it comes to banking. Everybody banks online. But there are more branches in Canada open more hours today than any time in history."* *Discuss how Loblaws and their PC Plus loyalty card has potentially assisted the retailer to reduce channel migration.*
IX. Types of Ownership • Another way to classify retailers is by their ownership. The major classifications of retail ownership are: (1) independent, single-store establishments, (2) corporate chains, and (3) franchises.	
A. Independent, Single-Store Establishments • Over 60,000 new retail businesses are started in the North America each year, and many such stores are owner-managed. • While single-store retailers can tailor their offering to their customers' needs, corporate chains can more effectively negotiate lower prices for merchandise and advertising due to their larger size. • To better compete against corporate chains,	*Ask students to give examples of local independent, single-store retailers. Do they shop at independents? Why? Will national chains drive all independents out of business? How do these factors differ or compare to a national chain and an independent retailer?*

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some independent retailers join a wholesale-sponsored voluntary chain. • A **wholesale-sponsored voluntary cooperative group** is an organization operated by a wholesaler offering a merchandising program to small, independent retailers on a voluntary basis.	
B. Corporate Retail Chains • A **retail chain** is a company operating multiple retail units under common ownership and usually having some centralization of decision making in defining and implementing its strategy. • Due to scale economies and an efficient distribution system, corporate chains can sell at lower prices. This forces some directly competing local retailers out of business and alters the community fabric. • On the other hand, local retailers offering complementary merchandise and services can prosper. Often, all stores in a chain have the same merchandise and services, while local retailers can provide merchandise compatible with local market needs.	*There is a lot of concern in small towns that corporate retail chains such as Wal-Mart will drive local independent retailers out of business. What can small retailers do to compete against these giants?* *Wal-Mart has pursued a strategy of opening stores on the outskirts of small rural towns with populations between 25,000 and 50,000. These stores offer broader selection of merchandise at much lower prices than previously available from local retailers. Discuss the pros and cons of this strategy (Predatory Pricing) in class. What type of ramifications will result? For example, monopolizing market, demise of small storeowner, potential to become major employer in rural area.*
C. Franchising • **Franchising** is a contractual agreement between a franchisor and a franchisee that allows the franchisee to operate a retail outlet using a name and format developed and supported by the franchisor. Approximately one-third of all US retail sales are made by franchisees. • In a franchise contract, the franchisee pays a lump sum plus a royalty on all sales for the right to operate a store in a specific location. The franchisee also agrees to operate the outlet as per the procedures prescribed by the franchisor. The franchisor provides assistance in locating and building the store, developing the products and/or services sold, management training, and advertising.	*For a more detailed discussion of the franchise concept see Ancillary Lecture 2.1 following the Discussion Questions and Problems. Ask students to give examples of local franchises. If they wanted to own a retail business, would they want a franchise or their own store? Why? What are the advantages of being a franchisee?*

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• The franchise ownership format attempts to combine the advantages of owner-managed businesses with efficiencies of centralized decision-making in chain store operations.	

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ANSWERS TO DISCUSSION QUESTIONS AND PROBLEMS

1. Distinguish between (breadth) and (depth). Why are these important elements of retail market structure?

The main difference between breadth and depth is that breadth refers to the number of different merchandise categories a retailer sells, whereas depth is the number of different items or SKUs in a merchandise category. Finally, these elements form an integral part of the retail market structure, since it is the retail offering that ultimately distinguishes one retailer from another.

2. How can small independent retailers compete against the large national chains?

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

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

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

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

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

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

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

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

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

Element of Retail Mix	Convenience Store	Traditional Supermarket	Superstore	Warehouse Store
1. Location/Place	Typically on corner of strip centres	Typically in strip shopping centres as an anchor.	Typically in 'big box' cluster centres.	Typically on outskirts of city
Store image (store design, display and promotion)	Typically grid-iron with gondolas and end caps.	Typically use a grid-iron with cross-hatch aisles,	Same as supermarket.	Same as supermarket. A bit more disorganized to give the customers the feel of searching for a bargain.
2. Product Assortment /Services	Limited variety and assortment except on confectionary items	Average variety and assortment	Greater variety with deeper assortment than supermarket.	Greater variety with about the same assortment as supermarket. Primary difference is that merchandise assortment varies because of opportunistic buying.
Customer Services	Minimal/Self Serve	Some services for produce, bakery, meat and fish categories.	Some services for produced, bakery, meat and fish areas.	Minimal/Self Serve
3. Value/Price	Higher pricing for convenience factor	Average pricing. Some chains have constant (every day) pricing and others have special sale (high-low) pricing.	Lower pricing than supermarkets. Typical every day pricing.	Lower pricing than supermarkets. Pricing depends on cost of merchandise bought on special buys.
4. Promotion, Communicatio n Mix	Low spending on communicaton mix elements, Location is key. Heavy signage and P.O.P	Average spending on communication mix, except flyer advertising which is higher. Extensive signs.	Higher spending on communication mix elements, especially advertising in order to keep in the consumer's mind when they are in the early stages of the consumer buying process.	Lower spending on communication mix since all merchandise is on sale.

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5. People/ Management Decisions (staffing)	Often one employee	Management staff, full and part time employees	Management staff, full and part time employees	Management staff, few full and many part time employees

All four types will persist because they appeal to different customer needs. Convenience stores serve a purpose in the communities they are located. Locations are key. Staple items and convenience goods keep these store's going. As well, many are now expanding their offerings by 'piggy-backing' with other retail/service outlets (gas, donuts, videos etc.).

The warehouse stores typically have larger pack sizes that are very attractive to customers with large families and to small business owners like local restaurants. In addition, due to the varying assortments, customers who are brand loyal might not want to shop in these stores. Costco for instance addresses this with a private-brand of their own – Kirkland.

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

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

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

5. Why haven't hypermarkets been successful in Canada and U.S.? Do you believe they will be successful in the future?

Hypermarkets are more of a European phenomenon, emerging as they did in France, to counter laws that restricted store sizes within metropolitan areas. While super centres have been more prevalent, hypermarkets, per se, do not currently exist in the United States.

Hypermarkets are typically located outside of metropolitan areas and stock more food than non-food merchandise. Fresh food, such as, produce, meat, fish, etc., are their specialty. Also, they typically carry fewer items. Many consumers may not wish to travel outside of the metropolitan area to buy fresh food items, especially since produce, meat or fish may require more immediate refrigeration or freezing. Also, with traffic congestion continuing to rise in most metropolitan areas within the United States, consumers may not find it too advantageous to travel a longer distance to save a few dollars off their food purchases. While the pure concept of hypermarket has less probability of success in Canada and U.S., some hybrid form that emphasizes a wider assortment in nonfood items as well (such as in Wal-Mart and Loblaws super centres) have been successful in Canada and U.S.

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

Each type of retail store provides a unique combination of price and services tailored to the

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

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

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

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

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

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

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

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

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

It must also be recognized that for most customers who are prescribed glasses for the first time are also most likely to continue wearing glasses or contact lenses for the rest of their lives.

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Thus, it is important to start building consumer trust and confidence through professional service and expertise. One strategy would be to encourage customers to return for an eye examination every year and also have their current prescription for the glasses or lenses checked. Another is to obtain free warranted repair service for the frames.

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

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

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

10. Should a multi-channel retailer offer the same assortment of merchandise for sale on its website at the same price as it sells in its stores. Explain why, or why not.

According to a recent study by Forrester Research, a leading internet research firm, (www.forrester.com), 65% of consumers have researched a product online and then purchased that product offline. Consistency in pricing, therefore, is important to ensure the retailer gives their customers a shopping experience that doesn't cause potential distrust or credibility, leading to customer dissatisfaction.

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ADDITIONAL QUESTIONS

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

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

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

2. Why are store-based retailers aggressively pursuing sales through an e-tailing site?

Stores have realized several distinct benefits of an electronic channel that overcome their traditional limitations and therefore started to pursue sales through an electronic channel more aggressively. First, an electronic channel enables stores to expand nationally and globally at a relatively low cost. Consider, for example a regional store with locations in four provinces in Canada. This store can service customers in other parts of the country through an electronic channel. Even if the cost of setting up a fully functional state-of-the-art website may be high, the costs of locating several stores in each of the provinces may be prohibitively higher. Second, an electronic channel enables stores to gather more information about their customers, their preferences and shopping habits. In a physical store format, stores have some limited information on the purchases made by customers only when the customers use a credit card for shopping. But information systems used in electronic channels can track customer visits, monitor their movements through their website, and help create customer data that can be used for providing personalized attention as well as better service and merchandise. Third, by offering an additional electronic format, stores can now provide more options to customers who, depending on the product category or purchase occasion, may prefer such electronic channels as well from time-to-time. Thus, giving alternative store formats to customers, stores have a better chance of retaining their customers and increasing the share of wallet. Finally, using their superior retailing expertise and well-known image, stores using an electronic format find themselves in a competitively advantageous position as compared to newer, Internet-only retailers. The costs of acquiring customers are thus lower for established stores than for the relatively unknown Internet retailers and may contribute to enhanced profitability.

3. What is a QR code? How are they used? And how can retailers benefit?

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A QR code is a two-dimensional code, readable by QR scanners, mobile phones with a camera, and smartphones. The code consists of black modules arranged in a square pattern on white background. The information encoded can be text, URL, or other data. QR codes can appear on any object about which users might need information and are commonly aimed at mobile phone users. QR codes are known as mobile tagging. A consumer with a camera phone that has the correct reader application can scan the QR image to display text, contact information, connect to a wireless network,or open a Web page in the phone's browser. QR codes provide customers with an interactive shopping experience while in-store without needing to install costly terminals. Retailers can include these codes on individual products which link to the specific page for that product on their website, providing consumers with information like specifications, consumer reviews, and an option to purchase.

4. Should a multi-channel offer the same assortment of merchandise for sale on its web site at the same price as it sells in its stores?

In general, a multi-channel should attempt to offer the same assortment of merchandise and price as it sells in its stores. By ensuring parity between the store and web site, the retailer sends a uniform message about its quality, prices and reputation to the consumer.

However, there may be significant operating, competitive and regulatory considerations that may contribute to the differences in merchandise and prices in a retailer's store as compared to its website. First, in terms of operating considerations, some retailers, manufacturers and service providers may find lower costs of operating and making a sale through the web site. These lower costs can be passed on to customers in terms of lower prices. For example, most airline firms now prefer customers to browse and buy tickets from their web site due to cost and efficiency considerations and therefore alert customers to the possibility of lower prices on their web site through a recording soon as the customer calls up an airline's reservation phone number. In terms of merchandise, retailers may find that bulky items requiring tremendous handling and packaging and incurring high shipping costs are not appropriate for selling over the Internet. For example, it may be difficult to buy bulky furniture and home improvement items over the Internet, especially when the retailer cannot make home delivery or drop ship the product. Second, retailers may charge different prices in specific physical locations to match or better the prices charged by local competitors. Third, sales tax regulations may force retailers to collect sales tax as well shipping and handling charges from customers who are from the states in which the retailer has a physical presence. Thus, customers from these states would be charged higher delivered prices through the Internet since they pay both the sales tax and shipping charges, while customers visiting the physical store would pay only the sales tax.

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ANCILLARY LECTURE: FRANCHISING

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

Introduction

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

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

The growth of franchising

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

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

Technological advances

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

For example: Electronic Data interchange.

Profitable utilization of capital resources

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

Attainment of the Canadian dream

Owning your own business.

Demographic expansion

Urban "sprawl" creates need for more small retail establishments.

No-longer just downtown locations.

Product/service consistency

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

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For example: A Big Mac tastes the same everywhere.

Types of franchise systems

There are various types of franchise systems including

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

Territorial franchise

The franchise granted encompasses several counties or states.

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

For example: McDonalds and Burger King Regional franchises.

Operating franchise

The individual independent franchisee who runs his own franchise.

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

For example: McDonalds and Burger King individual locations.

Mobile franchise

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

For example: Snap-On Tools.

Distributorship

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

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

For example: Sunoco gasoline convenience stores.

Co-ownership

The franchisor and franchisee share the investment and profits.

For Example: Tim Hortons.

Co-management

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The franchisor controls the major part of the investment.

The partner-manager shares profits proportionately.

For example: Holiday Inn.

Leasing/Licensing

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

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

For example: Sheraton Hotels.

Manufacturing

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

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

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

For example: Sealy.

Service

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

For example: Personnel One.

Why franchises fail

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

Franchises can fail for several reasons including

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

Inept management

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

Fraudulent activities

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

Market saturation

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

Franchisors and the marketing channel

A franchisor may occupy any position in the marketing channel.

Manufacturer-retailer franchise

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A manufacturer-retailer franchise is a contractual relationship between a manufacturer and a retailer. This type of franchise system is typical for the automobile industry, where car manufacturers such as Toyota license dealers to sell their cars. Example: Automobile dealers and service stations.

Manufacturer-wholesaler franchise

A manufacturer-wholesaler franchise transfers the right of manufacturing to the wholesaler. This type of franchise system is typical in the soft-drink industry, where the franchiser, instead of the final product, sells concentrates to the wholesaler, so that the wholesaler is then responsible for carbonating, bottling, promoting and distributing of the soft-drink. Example: Coca-Cola, Pepsi, Seven-Up, etc. sell syrup they manufacture to franchised wholesalers who bottle and distribute to retailers.

Wholesalers-retailer franchise

A wholesaler-retailer franchise is used by firms that have reached success as retailers and want to expand the business. Examples of this type of business are Rexall Drugs, Shoppers Drug Mart, and Canadian Tire.

Service Sponsor--Retailer franchise

A Service Sponsor-Retailer franchise is in place when franchisers license individuals or firms to provide services under a trade name and specific guidelines. Examples of this type are H&R Block tax services , Avis, Hertz, and Enterprise Rent-a-car, l, McDonald's, Tim Horton's , KFC, Howard Johnson's and Holiday Inn, Midas and Speedy Muffler.

Franchisor benefits

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

1. **Continuous market**

Insured through consistent quantity and quality and strong promotion.

2. **Market information**

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

3. **Money**

Principal sources of franchise company revenue.

4. **Royalty fees**

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

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

5. **Sales of products**

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

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

6. **Rental and lease fees**

The franchisor may lease buildings, equipment, and fixtures.

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7. License fees

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

8. Management fees

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

Franchisee benefits

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

Initial services

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

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

Continuous Services

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

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

Franchisor advantages/disadvantages

Depending upon which viewpoint one takes (the franchisor or franchisee) there are many advantages From the perspective of the franchisor, the advantages include:

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

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The disadvantages include

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

Franchisee advantages/disadvantages

From the viewpoint of the franchisee the advantages include

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

The disadvantages include

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

Franchising trends for the New Millennium

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

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

Examples include brands like Ford, Honda, and Shell.

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

The emphasis here is on how the business is run.

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

The major franchising trends perceived for New Millennium are

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

1. Sustained Growth

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

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

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

2. Enduring plus unimagined applications

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

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

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

3. International expansion

Franchisors are currently exploring foreign markets.

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

However, non-North American franchisors have had a more difficult time in North America due to stiff competition.

4. Increasing tensions

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

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

Dissatisfaction among franchisees could originate from various sources.

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

Also unsatisfactory financial performance may be another cause of discord.

5. Greater emphasis on financial returns

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

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

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ANCILLARY EXERCISE: COMPARATIVE SHOPPING ASSIGNMENT

Instructor's Note: The purpose of this assignment is to give the student an opportunity to get out and examine retailing strategy from an objective, professional, and non-consumer point of view. For many students, this will be the first time that they have looked at a retail store from this perspective. Instructors might want to use this exercise as a stimulus to a class discussion on the topic.

This exercise also gives students the opportunity to draft a formal business report--a good experience and a valuable communications skill.

Although there may be some discretion with regard to length, 10 pages seems to be a minimal amount in order to gain any type of in-depth knowledge.

Instructions

Students should choose two stores selling the same classifications of merchandise, e.g. Holt Renfrew and Winners.

An alternative is to choose two departments within different department stores as long as they sell the same classifications, e.g. Juniors at The Bay and Juniors at Sears.

Students could even choose one department within a department store and one specialty store with the same merchandise classifications, e.g. Harry Rosen and the men's suit department at The Bay.

The important thing is that these two stores/departments cater to two very different market segments.

Students should be required to collect information on the two stores or departments by posing as a customer and interviewing a manager or buyer.

In the formal interview, they should be sure to have the questions thought out in advance. Also, they should document, with footnotes, information which was obtained by the store, or by secondary sources of information.

The written phase of the project is designed to answer two questions:

What is the description of the target markets being addressed by both of the stores or departments?

(This section need not be long, but should be as specific as possible.Clearly, this section will benefit from a personal interview.)

Compare the strategies of the two stores or departments using the following elements of the "Retailing Mix":

1. *Product*
2. *Place*
3. *Value*
4. *Communication*
5. *People*

The final project should be evaluated according to specific guidelines established by the instructor.

Generally, most instructors have found that it is helpful if papers are typed double-spaced.

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ANCILLARY ASSIGNMENT: ELECTRONIC RETAILING

The objective of this assignment is to have you experience shopping on the Internet and then think about whether or not this form of non-store retailing will become a major factor in the industry. Some suggestions for experiencing shopping on the Internet are as follows:

1. Shopping for a CD album -- go to http://www.bf2.cstar.ac.com. This site is an intelligent agent called Bargain Finder developed by Andersen Consulting. You indicate the album in which you are interested and the agent searches the Internet for retailers selling the album. The agent then gives you a listing of all of the retailers selling the album, the price of the album, and provides a "hot link" to the retailer. You might also go to http://www.agents-inc.com for an intelligent agent that will make some suggestions about music and bands you might like. Finally, visit some of the CD album retailers and review their offering.

2. Look for some items of clothing by visiting the following sites:

Sears	http://www.sears.com
Wal-Mart	http://www.wal-mart.com
Lands End	http://www.landsend.com
LL Bean	http://www.llbean.com
Gap	http://www.thegap.com

3. Look for a book by going to Amazon.com at http://www.amazon.com

4. Look for a computer at http://www.maven.businessweekcom

5. Look at some of the retail sites listed in the Appendix to the chapter. An updated list of Internet retail sites can be found at http://www.cba.ufl.edu/CRER.

   After visiting some of these sites and trying to buy things on the Internet, write a 3-page paper answering the following questions?

   1. What do you like about shopping on the Internet? What don't you like?
   2. Would you prefer to shop over the Internet or through a catalogue? Why?
   3. What types of the products do you think will sell well over the Internet? Why?

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CASE 2 – Retailing in India – Impact of Hypermarkets

Use: Chapter 1 Example of the retail industry evolving globally
Chapter 2 Differences in retail formats in India U.S. and Canada.
Chapter 3 Illustrates differences in shopping behavior across the globe
Chapter 7 Example of international retailing and entering a foreign market

Discussion Questions:

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

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

2. **What does it say about the Indian Government concerning the fact that they are willing to spend $50 billion (U.S.) to improve the nation's infrastructure? Is this good news for international retailers?**

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

3. **Identify the main changes being seen in Indian consumers. How can international retailers learn more about India's youthful demographic?**

- Indian consumers are becoming more concerned with style and quality as opposed to price.

- As the incomes of Indian's increases, purchases of non-food related items increases, which is good news for international retailers.
- 54% of India's population is under the age of 25. This Indian demographic has grown up exposed to a more advance culture than generations before it.
- Organized retailers, like hypermarkets, are exposing Indians to new products that local vendors could not provide.
- International retailers can learn about the under 25 demographic by going out and being proactive in their research. Spend some time witnessing younger Indians shopping to determine what it is they look for and what they find important.
- Take advantage of the younger generation's use of technology to gain intelligence. Use online resources to make contact with potential customers to inform them of products and discounts being offered in stores.

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Chapter 2 – Types of Retailers

What retailers or types of retailers are characterized as follows:

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

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

3. A type of "Category Specialist"
   _____

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

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

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

7. Not popular in U.S or Canada., but popular in Europe
   _____

8. Can be further categorized into 3 tiers
   _____

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

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

11. One of the fastest growing segments in retailing.
    _____

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

13. Large stores located in low-rent areas
    _____

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

15. General merchandise is typically purchased on impulse here
_____

16. A type of specialty store.
_____

17. Speedy checkout
_____

18. Prices are 40% lower than conventional supermarkets
_____

19. Known as “Category Killers”
_____

20. Pharmaceuticals represent over 50% of their sales.
_____

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

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

23. Placing more emphasis on private label brands
_____

24. Target low-income customers with smaller packages.
_____

25. Most significant trend is conversion into supercenters.
_____

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

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

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28. Concentrate on health and personal grooming.
_____

29. Offering is communicated via letters and brochures.
_____

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

31. Buy opportunistically
_____

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

33. Emphasize perishables
_____

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

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

36. Known as “Discount Specialty Stores”
_____

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

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

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

40. Increasing their private label brands.
_____

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

42. Functions as a retailer and a wholesaler.
_____

43. Receive deliveries every day
_____

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

45. By opportunistically from other retailers and manufacturers.
_____

46. Organize stores into separate departments for displaying merchandise
_____

47. Off-price retailer owned by a manufacturer.
_____

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

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

50. Fastest growing retail category
_____

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

52. Gas accounts for 66% of sales
_____

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

54. Brands are typically less fashion oriented.
_____

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

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

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

Answers:

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

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

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

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Chapter 2 – Retail Formats

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

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

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Retail Formats with Answers

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

Retail Format	Key Issues
Food Retailers	- *Increasing competition from other types of retailers* - *Walmart and other discounters selling more food items* - *Drug chains carry much of the same merchandise as food stores* - *Fast food restaurants sell healthy food alternatives* - *Convenience stores sell prepared meals, drinks and snacks* - *Offering "meal solutions" to counter competitive pressures, see better margins on prepared foods*
Discount Stores	- *Push to carry more grocery items* - *Intense competition from other formats* - *Creating a more attractive place to shop with more apparel and strong private label merchandise* - *EDLP and efficient operations* - *Americans want good value, not just cheap merchandise* - *High concentration – three top players* - *Walmart dominates the category*
Specialty Stores	- *Weak, slow growing area in retailing* - *Aging population is less interested in fashion spending* - *Competition from discount stores* - *Fashion rapidly changes as do customers tastes and preferences*
Category Specialists	- *Regional roots, now expanding* - *Competition is intense and focused on price, therefore the result is thin margins and little differentiation* - *Stress decreasing costs through efficient operations and economies of scale* - *Service level may be used for brand differentiation*
Department Stores	- *Overall sales are stagnant and market share has fallen in recent years* - *Increased competition from discount and specialty stores* - *Not seen as "romantic or convenient" as in the past* - *Located in large malls* - *Specific merchandise is hard to find* - *Less service is being offered* - *Charge higher prices than competitors* - *Some are lowering prices and offering more private label merchandise* - *Work closely with vendors to better stock merchandise*

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Chapter 2 – Extreme Value Retailers

Read the articles listed below and answer the following question:

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

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

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

Consider each of the following in your response:

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

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Extreme Value Retailers with Answers

Read the articles listed below and answer the following question:

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

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

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

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

Direct competition in the category
- *Four leading chains – Dollar General, Family Dollar Stores, 99 Cents Only, and Dollar Tree*

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

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

Pricing strategy
- *Low prices on commodities*

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

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Example 1

ENTREPRENEUR VS CHAIN

Retail Marketing of Two Different Types of Stores
Students are to analyze two different retail approaches such as an independent drug store compared to a national chain or a local small "Mom and Pop" hardware compared to a Home Depot or Rona. Prepare an analysis of the impact of competitive forces and market factors in terms of entrepreneurial forces as compared to traditional retail chain marketing. This report should include a historical overview of the marketing evolution, business financial issues/costs, growth strategies, and product life cycle issues. Retail knowledge from the class will provide a framework including a complete literature review of articles, site research, and other sources.

Example 2

WEB STRATEGY

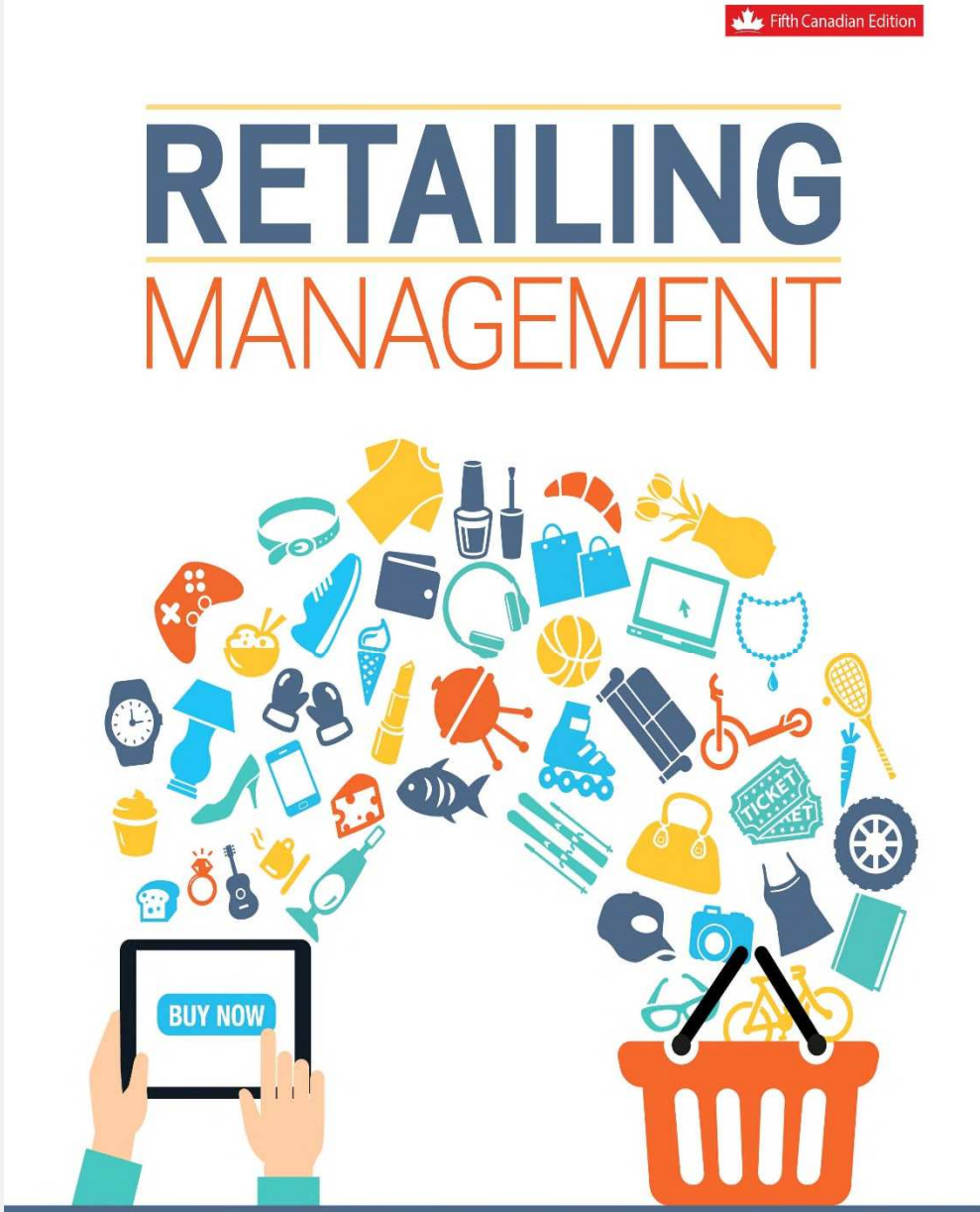
E-tailing Students are to prepare the actual or hypothetical start-up of an E-Commerce Internet or "http://www.dot.com" company. This may be accomplished in a group or individual format of approximately 4-5 individuals. It is suggested that the team break up the assignment into web strategy, creative, media, integrated marketing, relationship, target segments, domain development, naming, research etc. for maximum productivity. Each member must contribute to the effort to the satisfaction of the group to receive the group grade. The purpose of this assignment is to provide a real life experience of starting up an e-commerce http://www.dot.com based on the insight gathered in this process combined with course learning. When possible, students should conduct brief surveys of what others think of the http://www.dot.com for supporting research. One example might be a used text consortium, or reverse auction site.

Chapter 2

Types of retailers

PowerPoint Presentation Prepared by Michael Madore,

University of Lethbridge



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Chapter 2
Types of retailers

Learning Objectives

lo1 Explore various trends that are shaping today's retailers.
lo2 Compare and contrast the different types of retailers.
lo3 Examine how retailers differ in terms of how they meet the needs of their customers.
lo4 Review how services retailers differ from merchandise retailers.
lo5 Explore how multichannel retailers provide more value to their customers.
lo6 Recognize the key success factors in multichannel retailing.
lo7 Identify the types of ownership for retail firms.



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Growing Diversity of Retail Formats

- Empowered, Discriminating Consumers
- Ubiquitous Connectivity
- Buying Local, Going Green
- Explosion of Consumer Data
- New Age of Marketing
- Scientific Retailing
- Growing Retailer Power
- Maturing Retail Technologies
- Blurring Boundaries Among Channels, Formats, and Brands
- Challenged Store Economics

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lo1

Expanding Retail Breadth

- New retail formats have emerged.
- Same merchandise can be purchased from a wide variety of retailers.
- New *specialty* format retailers in the marketplace:
  - Sport Check – apparel
  - Bed Bath & Beyond – home decor
  - PETsMART – pet supplies

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Expanding Retail Breadth (cont'd)

- Established retailers have added to their merchandise mix:
  - Loblaw's – pharmacies, clothing (Joe Fresh)
  - Shoppers Drug Mart – grocery products
  - Canadian Tire – kitchen and bath accessories
- The internet has created an opportunity for a new set of retailers to enable consumers to buy on line:
- www.kijiji.com
- www.alibaba.com
- www.priceline.com

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Increasing Industry Competition

- Canadian marketplace is dominated by a small number of large retailers:
  - Wal-Mart - Mass Merchandiser
  - Shoppers Drug Mart – Drugstore chain
  - Best Buy & Visions
  - Costco
  - Holt Renfrew, The Bay & Sears
  - Loblaw's
  - Canadian Tire
  - Home Depot, RONA & Lowes

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Retailer Characteristics

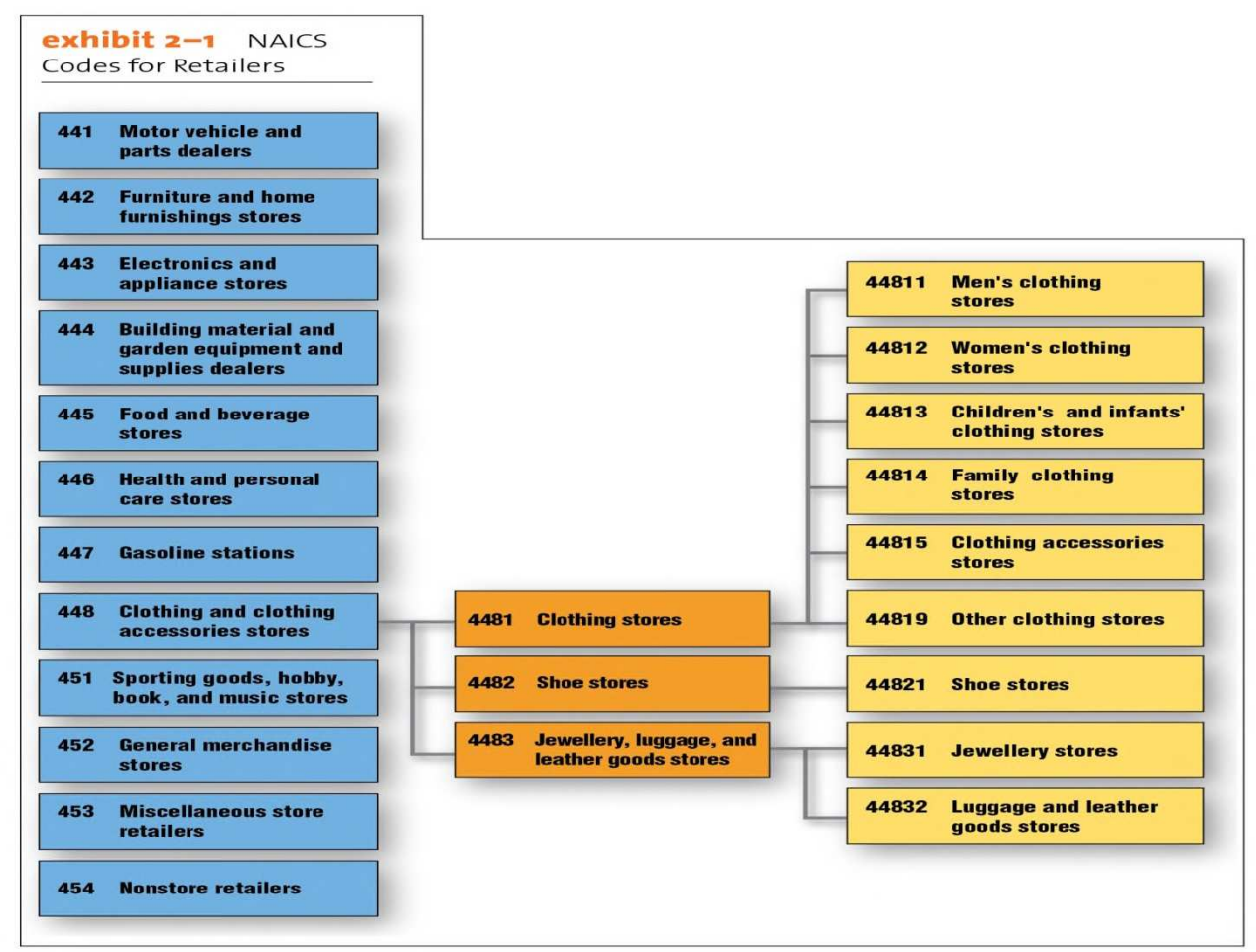
❖Four elements used to classify retailers:

1. Type of merchandise/services offered
2. Breadth and Depth of merchandise offered
3. The level of customer service
4. The price of the merchandise

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Types of Merchandise



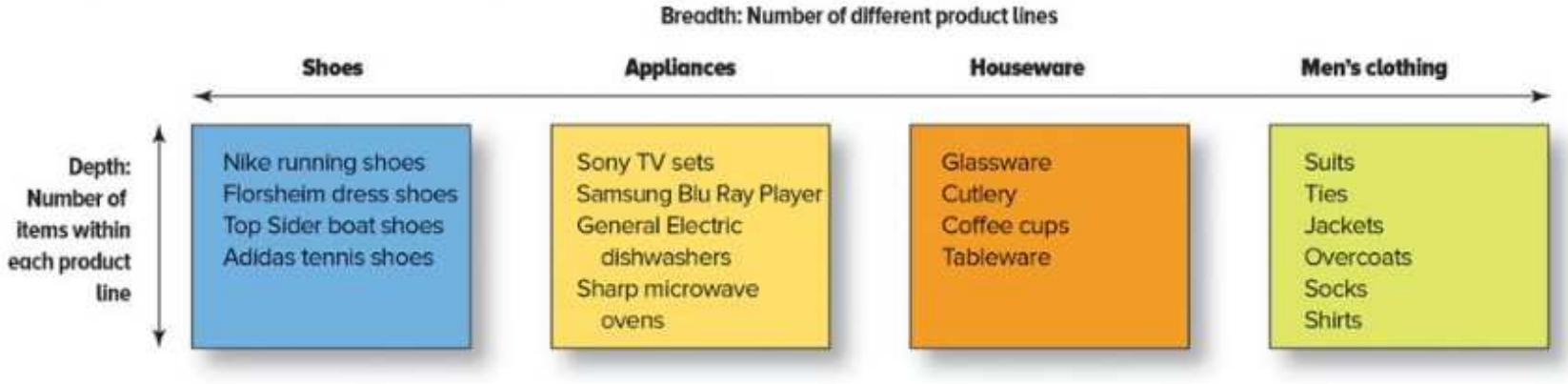
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Breadth versus Depth

Exhibit 2–2

Breadth versus depth of merchandise lines



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Variety and Assortment

Exhibit 2–3

Breadth and depth of kayaks in different retail outlets

Retailer	Brand	White-Water	Recreational	Sea Touring	Fishing
EMS (Eastern Mountain Sports)	Necky		X	X	
	Wilderness Systems		X	X	X
	Hurricane			X	
	Perception		X		
	Old Town		X		
	Airis				X
			7 SKUs	14 SKUs	3 SKUs
			$489–$1209	$1259–$1695	$975–$1365
Outdoorplay.com	Axiom	X			
	Axis	X			
	WaveSport	X			
	Dagger	X	X	X	
	Airis	X	X		
	NRS	X			
	Wilderness Systems		X	X	X
	Perception		X	X	
	Necky		X	X	

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Cost of Offering Breadth and Depth of Merchandise and Service

When a retailer offers customers many SKUs, inventory investment increases because the retailer must have backup stock for each SKU

Why is backup stock needed?

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Types of Retailers

General Merchandise

Food Retailers

Nonstore Formats

Service Retailing

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General Merchandise Retailers

- Discount Stores
- Specialty Stores
- Category Specialists
- Department Stores
- Drugstores
- Off-Price Retailers
- Value Retailers

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Exhibit 2-4 Canadian Retail Sales by Type of Store

Exhibit 2–4

Canadian retail sales by type of store

To September 2015	$ Billions Last 12 Months	Year-over-Year % Change			
		Sept. 2015	2015 Year-to-Date	Last 3 Months	Last 12 Months
Total Location-Based Retail	**$512.7**	**2.5%**	**2.1%**	**2.2%**	**2.6%**
Store retail	**$330.0**	**3.0%**	**3.9%**	**3.0%**	**4.0%**
Food & drug	$150.8	3.2%	3.4%	2.6%	3.6%
Store merchandise	$179.2	4.2%	4.3%	3.3%	4.4%
Automotive & related	**$102.0**	**0.4%**	**–0.9%**	**0.9%**	**0.2%**
Food & Drug Sector	**$150.0**	**3.2%**	**3.4%**	**2.6%**	**3.6%**
Food & beverage stores	**$113.2**	**2.7%**	**2.9%**	**1.9%**	**3.4%**
Grocery stores	$86.1	1.2%	2.5%	0.8%	3.1%
Supermarkets & other grocery stores	$78.9	0.8%	2.2%	0.3%	2.8%
Convenience stores	$7.2	5.0%	6.7%	5.5%	6.8%
Specialty food stores	$6.1	3.4%	3.5%	3.1%	3.2%
Beer, wine, & liquor stores	$21.0	8.8%	4.5%	6.2%	4.6%
Health & personal care stores	**$37.5**	**4.9%**	**4.9%**	**4.6%**	**4.0%**
Store Merchandise Sector	**$179.2**	**4.2%**	**4.3%**	**3.3%**	**4.4%**
General merchandise stores	**$65.1**	**3.7%**	**3.1%**	**2.2%**	**3.6%**
Department stores	$27.7	2.6%	2.2%	1.5%	2.2%
Other general merchandise stores	$37.4	4.5%	3.7%	2.8%	4.7%
Clothing & clothing accessories stores	**$29.4**	**7.5%**	**6.7%**	**6.9%**	**6.0%**
Clothing stores	$23.0	6.9%	6.5%	6.1%	6.0%
Shoe stores	$3.3	11.0%	8.3%	10.8%	7.1%

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Exhibit 2.5 Characteristics of General Merchandise Retailers

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 centres
Category specialists	Narrow	Very deep	Low to high	Low	50–100	20–40	Stand-alone, power strip centres
Specialty stores	Narrow	Deep	High	High	4–12	5	Regional malls
Home improvement centres	Narrow	Very deep	Low to high	Low	80–120	20–40	Stand-alone, power strip centres
Drugstores	Narrow	Very deep	Average	Average to high	3–15	10–20	Stand-alone, strip centres
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

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General Merchandise Retailers - Discount Stores

- Discount Stores – offers a broad variety of merchandise, limited service, and low prices

  (Examples - Dollarama, Giant Tiger, and Walmart)

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Issues in Discount Store Retailing

- A lack of timing
- Management inefficiencies
- Macroenvironmental forces

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General Merchandise Retailers – Speciality Stores

- Specialty Stores - concentrates on a limited number of complementary merchandise categories and provides a high level size is typically under 8000 square feet

  (Examples – Pro hockey Life, Hockey Experts)

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Issues in Specialty Store Retailing

- Mall-Based apparel retailers
- Decline in mall shopping and apparel sales
- Lack of new fashions
- Less interest in fashion due to aging population
- Increase price consciousness

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General Merchandise Retailers – Category Specialists

- Category Specialists - A discount retailer offers a narrow but deep assortment of merchandise in a specific category - aka *category killer*

(Examples – Toys R Us and Bass Pro Shops,)

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Category Killer

Exhibit 2–6

Big-box comparative size advantage

•	Superstores—3 times the traditional supermarket
•	Home Depot—18 times the traditional hardware store
•	Chapters—12 times the traditional book store
•	Winners—6 times the traditional fashion store
•	Staples—5 times the traditional office supply store
•	Michaels Craft Stores—9 times the traditional arts and crafts store
•	Sport Chek—6 times the traditional sporting goods store

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Issues in Category Specialists

- Intense direct competition
- Differentiation
- Focus on service
- Wholesaling to business customers and retailing to consumers
- Available locations
- Increased competition with national expansion and consolidation

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General Merchandise Retailers – Department Stores

- Department Stores - retailer that carries a broad variety and deep assortment of stock, offers some customer services, and is organized into separate departments for displaying merchandise.

(Examples – Sears, Hudson Bay and Holt Renfrew)



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Issues in Department Store Retailing

- Competition
  - Discount stores on price
  - Specialty stores on service, depth of assortment
  - Reduction in overall sales
- Lower cost by reducing services
- Centralized POS & wrapping
- Customers wait for sale
- Focus on apparel and soft goods
- Develop private labels and exclusive brands

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General Merchandise Retailers – Drug Stores

- Drug Stores - a specialty store that concentrates on health and personal grooming merchandise.

(Examples – Shopper Drug Mart and Rexall)



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Issues in Drug Store Retailing

- Aging Population
  - requires more prescription drugs
- Competition from Supermarkets and Discount Stores – Pharmaceuticals
- Evolution to a New Format (Shoppers Drug Mart, London Drugs, Jean Coutu) – Cosmetics and Beauty products
- Stand Alone Sites with Drive Thru Windows
- Convenient Store Front End

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General Merchandise Retailers – Off-Price Retailers

- Off Price Retailers - offers an inconsistent assortment of brand-name, fashion-oriented soft goods at low prices.

  (Examples – Winners and Marshalls)

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Off-Price Retailers – Two Types……

❖ ***Closeout***

- Broad but inconsistent assortment
- Acquire from closing or bankruptcy
- General merchandise, clothing and home furnishings
- EPIC Liquidation World

❖ ***Outlet (Factory)***

- Owned by manufacturer
- Clustered together in geographic area – Cambridge, Alliston
- Focus on clothing
- Location offers climate controlled environment, food, parking and bargains

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Issues in Off-Price Retailing

- Opportunistic buying (Winners & Marshall's)
- Hurt by sales in department stores
- Buying first line merchandise

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General Merchandise Retailers – Value Retailers

- Value Retailers - are general merchandise discount stores that are found in either lower-income urban or middle-income suburbs, or in rural areas, and are much smaller than traditional discount stores.

(Examples –Your Dollar Store with More, Kelowna BC franchise)



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General Merchandise Retailers – Pop-Up Stores

Pop-Up Stores – are temporary stores set up in unfinished non-traditional spaces to create buzz and intercept consumers can be used as an incubator for new ideas.

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Issues in Pop-Up stores

- Must consider the impact upon leaving the site it has leased for the short time period
- Negative impact of "customer relationships"
  - product returns
  - warranty and guarantee issues – how do you resolve with no physical presence?

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Food Retailers – Sales Distribution

Exhibit 2–7

Canadian Food Retail Sales 2009–2013



Source: Kenric S. Tyghe and Krisztina Katai, *Grocery as Science, Data as Art*, Raymond James, Oct. 24, 2014, pg. 4. Courtesy of Raymond James.

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Types of Food Retailers

- Supermarkets
  - Conventional supermarket
  - Limited-assortment supermarkets
- Big-Box Food Retailers
  - Supercentres, Hypermarkets and Warehouse Clubs
- Convenience Stores
  - Drug Stores – "joining the party"

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Characteristics of Food Retailers

Exhibit 2–9

Characteristics of Food Retailers

	Conventional Supermarket	Limited-Assortment Supermarket	Supercentre	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

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Supermarkets

- Self service
- Success factors include:
  - Fresh merchandise
  - Targeting health-conscious & ethnic shopper
  - Better in-store experience – cooking exhibitions and food tasting
  - Private label brands – differentiation, lower costs and higher margins

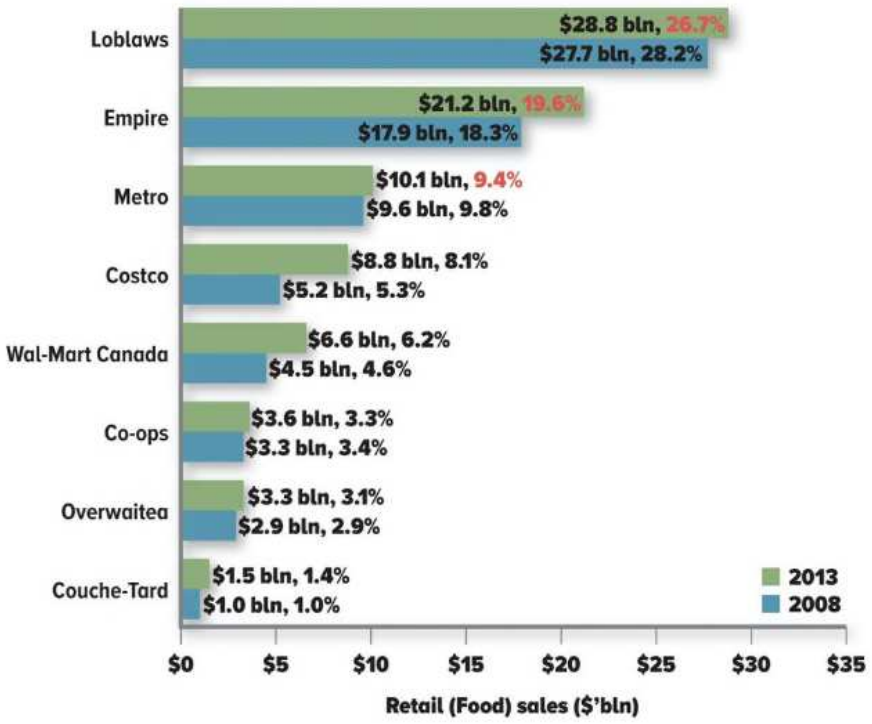
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Top Grocers – Sales Distribution

Exhibit 2–8

Food Market Shares of the Top Canadian Grocers – 2008 and 2013



Source: Kenric S. Tyghe and Krisztina Katai, *Grocery as Science, Data as Art*, Raymond James, Oct. 24, 2014, pg. 4. Courtesy of Raymond James.

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Big Box Food Retailers

- Big Box Food Retailers (aka *Supercentres*)
  - 160 000 to 200 000 square feet in size and offer a wide variety of food (30–40 percent) and non-food merchandise (60–70 percent).
  - fastest-growing retail category stock between 100 000 and 150 000 individual items (SKUs).

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Big Box Food Retailers - Warehouse Clubs

- Offer a limited assortment of food and general merchandise with little service
- Low prices for consumers and small business – *Membership required*
- Large stores in low-rent areas
- Simple, no frills approach to merchandising – skids, racks, stacks
- Costco, Sam's Club (in U.S)

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Convenience Stores/Drug Stores

- provide a limited variety and assortment of merchandise at a convenient location
- 3000- to 5000-square-foot store
- speedy checkout
- modern version of the neighbourhood mom-and-pop grocery/general store

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Issues in Food Retailing

- Competition from other types of retailers:
  - Department, Drug and Convenience store – food items on the shelves
  - Assortment and price
- Changes in consumer consumption patterns:
  - Time strapped
  - Eating out more
  - Ready to eat options

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Nonstore Retail Formats

- Electronic Retailing (e-tailing, online retailing and internet retailing)
- Catalogue Channel
- Direct Selling
- Television Home Shopping
- Vending Machine Retailing

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Electronic Retailing

- Broader & Deeper Assortments
- Information that is comprehensive and timely
- Personalization
- Interactive

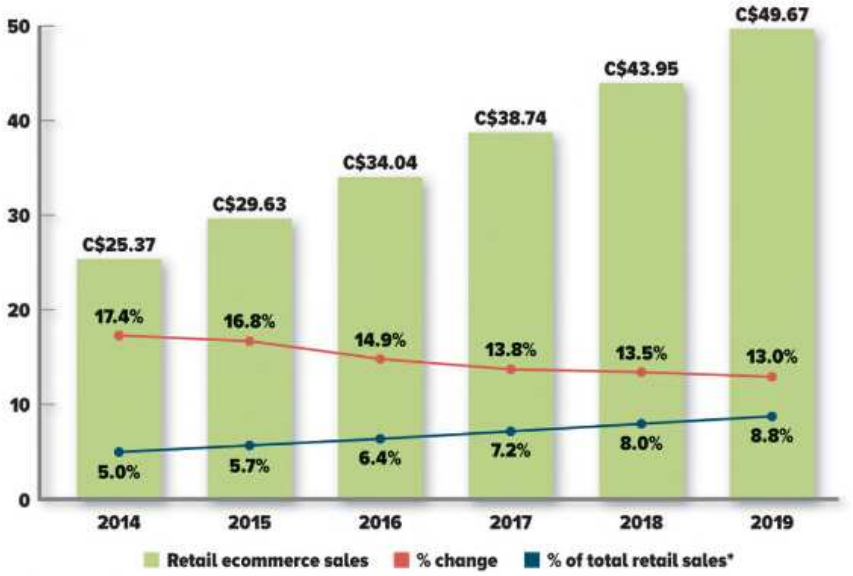
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E-commerce Sales

Exhibit 2–10

Retail e-commerce sales in Canada 2014–2019, billions of C$, % change and % of total retail sales



Note: includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets; *eMarketer benchmarks its Canada total retail sales figures against Statistics Canada (StatCan) data, for which the last full year measured was 2014

Source: eMarketer, July 2015

Source: "In Canada, Retail Ecommerce Sales to Rise by Double Digits Through 2019," *eMarketer.com*, July 24, 2015, http://www.emarketer.com/Article/Canada-Retail-Ecommerce-Sales-Rise-by-Double-Digits-Through-2019/1012771 (accessed December 22, 2015). Courtesy of eMarketer.com.

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Exhibit 2-12

Exhibit 2–12

Capabilities needed to successfully sell merchandise online

Capabilities	Electronic-only Retailers	Catalogue Retailers	Store-based Retailers	Merchandise Manufacturers
Strong brand name and image to build traffic and reduce customers' perceived risk	Low	Medium to high	High	Medium to high
Availability of customer information to tailor presentations	Medium to high	High	Medium to high	Low
Providing and managing complementary merchandise and services	High	High	High	Medium
Offering unique merchandise	Low	Medium to high	Medium to high	High
Presenting merchandise and information in electronic format	High	High	Medium to high	Medium
Efficient distribution system to deliver merchandise to homes and accept returns	Low	Medium to high	High	Low

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Catalogue Channel

- Access and Convenience for consumers
- Retailers use a multi-channel strategy by integrating the internet
- Many merchandise categories from general to very specific
- Success factors:
  - Customer data
  - Visual appeal
  - Personalized service

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Direct Selling

- Face-to-Face interaction
  - Demonstration, take orders, delivery
- Types:
  - Party Plan System – social event hosted by the salesperson
  - Multilevel System – master distributors recruit people who sell and recruit others to do the same
  - Pyramid Scheme – illegal activity that only sells to other distributors rather than to end users

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Television Home Shopping

- T-Commerce or Teleshopping
- Cable channels dedicated to television shipping – The Shopping Channel
- Infomercials
- Direct-response advertising

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Did You Know? Shopping Channel Facts

The Shopping Channel Facts

364:	The number of days the channel broadcasts live (every day but Christmas).
18:	The number of hours the channel broadcasts live each day.
10 000:	The number of phone calls/emails/chats received in a day.
2 802 262:	The number of phone calls/emails/chats received in 2012.
8 500 000:	The number of homes The Shopping Channel programming reaches in Canada.
3 966 103:	The number of items shipped in 2012.
16 000:	The average number of packages the distribution centre ships a day.
208 727:	The number of videos viewed on TheShoppingChannel.com on average per month.

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Did You Know? Shopping Channel Facts

The Shopping Channel Facts

3500: The number of BlackBerry PlayBooks sold in one day.

800: The number of products presented each week.

26 115: The number of videos the channel currently holds as resource material.

200: The number of operators in the channel's customer care centre.

24: The number of hours those operators staff the customer care centre.

6552: The hours of live TV produced by the channel each year.

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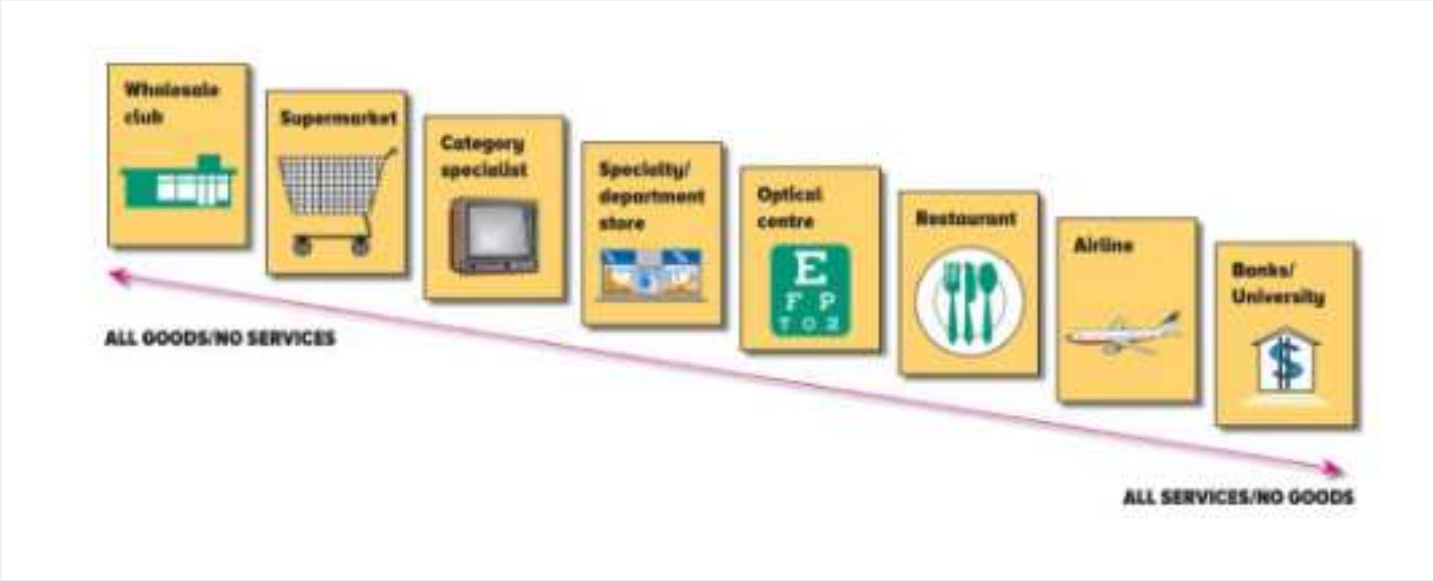
Services Retailing

- Trends
  - Aging population will require health services
  - Increase spend on health & fitness by all population segments
  - Time strapped families have money and will pay for services that will 'free' up time
  - Merchandise – Service integration

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Exhibit 2-13
Merchandise/Service Continuum



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Services vs. Merchandise Retailers

- Differences

➢ Intangibility
  - Problems in evaluating service quality
  - Performance of service provider

➢ Simultaneous production and delivery
  - Importance of service provider

➢ Perishability
  - No inventory, must fill capacity

➢ Inconsistency of the offering (Variability)
  - Importance of HR management and systems

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Multichannel Retailers

Exhibit 2–14

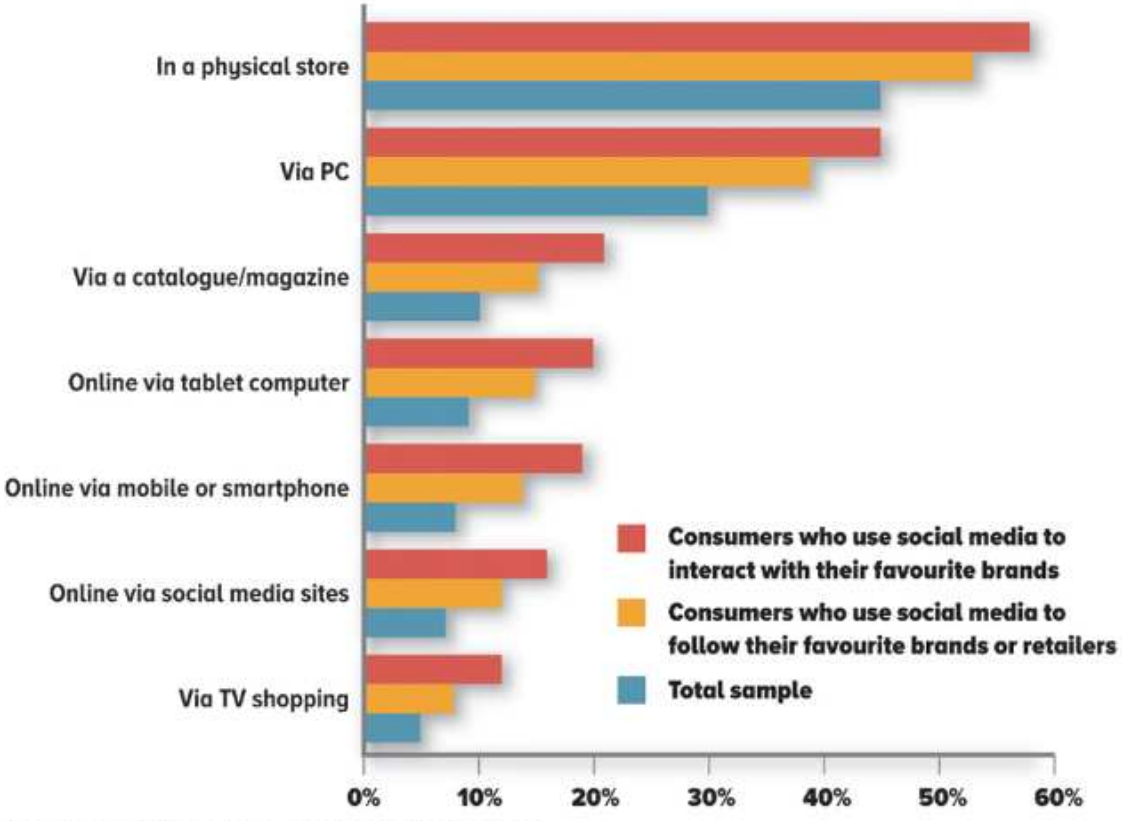
Channel Benefits

Stores	Catalogue	Internet
		
• Browsing • Touching and feeling products • Personal service • Cash payment • Immediate gratification • Entertainment and social interaction	• Convenience • Portability; easily accessible • Safety • Visual presentation	• Convenience • Safety • Broad selection • Detailed information • Personalization • Problem-solving information

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Social Brand Lovers Shop More



Social brand lovers shop more often in every channel.

Source: PwC Canada.

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The Multichannel Universe

- Seamless experience
- Access through: smartphone, tablet, call centre, internet, catalogue or store
- Promotion opportunities
- Operational efficiencies

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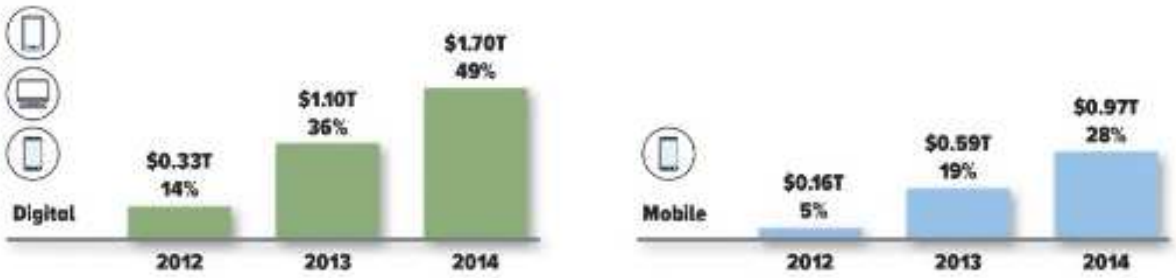
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M-Commerce – some stats

- As of 2015, 68 percent of Canadians have smart phones, and it is estimated that "around 3 million Canadians bought their first smartphone in the past six months.
- Roughly 58 percent of consumers who own a smartphone have used it for store-related shopping.
- Twenty-three percent of smartphone users who mobile-shop will research on the smartphone, visit the store to check out the product, and then purchase online (using a computer or Internet-enabled device)
- Among smartphone shoppers, the percentage who use their smartphones for shopping varies by store category, from 49 percent in electronics and appliances stores to 19 percent in convenience stores and gas stations.

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M-Commerce



Source: Deloitte Digital, "Navigating the New Digital Divide: Capitalizing on Digital Influence in Retail," 2015, Figure 3, p. 6, http://www2.deloitte.com/content/dam/Deloitte/us/Documents/consumer-business/us-cb-navigating-the-new-digital-divide-v2-051315.pdf.

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In-Store Electronic Kiosks

- Another access and transaction point for consumers:
  - Search for merchandise
  - Provide consumer with additional assortment choices not available in the store
- Customization of solutions
- Complement the service provided by salespeople

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Types of Retail Ownership

- Independent, single store establishments
- Corporate Retail Chains
- Franchising

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Exhibit 2-17
Sampling of selected Canadian franchises (2017)

Exhibit 2–17

Sampling of selected Canadian franchises (2017)

Franchisor	Number of Units Owned in Canada	Number of Franchisees/ Dealers in Canada	Initial Fee	Royalty	Advertising Program	Approximate Investment Required (millions)	Website
Boston Pizza	3	350	$69 000	7%	2.5%	$1.7–$2.2	http://www.bostonpizza.com
Dairy Queen Canada	–	638	$30 000–$45 000	4%	5–6%	$.4+	http://www.dairyqueen.com
McDonald's Restaurants of Canada	230	1213	$45 000	17%, including rent, services fee, and advertising		$.8	http://www.mcdonalds.com
Midas Muffler Shop	0	150	$30 000	5%	5%	$.18 – $.43	http://www.midas.com
Tommy Guns's Original Barber Shop	1	51	$30 000	n/a	n/a	$.35+	http://tommyguns.com
Tim Hortons	15	3657	$50 000	4.5%	4%	$.2+	http://www.timhortons.com

Source: Adapted from *Franchise Canada Directory 2010*, Canadian Franchise Association, http://www.cfa.ca ; Look for a franchise http://www.lookforefranchise.ca

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Summary

- Different types of retailers were explained and how they use different retail mixes to compete.
- Specific issues facing these formats were also outlined.
- The evolution of new retail 'approaches' was discussed and how traditional formats have adjusted in order to remain competitive.
- Each channel offers unique benefits to customers.
- Customers want to communicate with retailers anytime, anywhere and anyplace.

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Summary

- Multichannel retailing has become an integral way of doing business for many retailers.
- Providing a seamless interface across channels presents challenges, but if done well, can be used to enhance the retailer's brand image and provide a customer centric experience for the shopper.

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Retailing Management (Canadian) 5th edition Levy Solutions Manual