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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Darlene works for a large fashion retailer. She is responsible for determining the assortment and variety of clothing their stores will offer and how the clothing will be priced. Darlene is concerned with the retail mix.
   - ◎ true
   - ◎ false

2) Assortment is the number of different merchandise categories a retailer offers, also known as the breadth of merchandise.
   - ◎ true
   - ◎ false

3) When it comes to food retailers, the vast majority of consumers still prefer to purchase their groceries from conventional supermarkets.
   - ◎ true
   - ◎ false

4) Walmart is classified as an off-price retailer.
   - ◎ true
   - ◎ false

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5) Extreme-value retailers have a broad appeal to budget conscious consumers.
   - ◎ true
   - ◎ false

6) Due to the intangibility of their offerings, services retailers often use tangible symbols to inform customers about the quality of their services.
   - ◎ true
   - ◎ false

7) The biggest difference between service retailers and merchandise retailers is their profits.
   - ◎ true
   - ◎ false

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8) Whereas corporate chains can tailor their offerings to their customers' needs, single-store retailers can more effectively negotiate lower prices for merchandise and advertising because of their larger size.
   ◎ true
   ◎ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

9) What is the term given to the marketing analysis method that gathers and applies data precisely where they are most beneficial?
   A) point-of-sale analysis
   B) stock-keeping unit data
   C) real-time computing
   D) benefit analysis
   E) edge computing

10) For what purpose is the North American Industry Classification System (NAICS) used?
   A) to identify the number of retailers in the United States, Canada, and Mexico
   B) as a framework for pricing various retail offerings by industry
   C) to classify retailers based on the types of products and services they sell
   D) as a way to balance the number of retailers in any given industry
   E) as a framework for retailers to identify and segment markets

11) With respect to retailing, an assortment of merchandise is best defined as
   A) each different item of merchandise offered by a retailer.
   B) the number of different items offered in a merchandise category.
   C) the number of merchandise categories a retailer offers.
   D) merchandise with minor mistakes in construction.
   E) end-of-season merchandise that will not be used in following seasons.

12) Gina's Gift Shop sells greeting cards, home accents, and jewelry. These merchandise categories are referred to as the store's
   A) assortment.
   B) depth.
   C) retail mix.
   D) variety.
   E) groupings.

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13) Because the only merchandise category at the University Appliance Shop are mini-sized dorm refrigerators, the Appliance Shop can be said to have no
A) inventory control.
B) need for customer service.
C) variety.
D) irregularity
E) product depth.

14) What is a stock-keeping unit?
A) the number of different items offered in a merchandise category
B) end-of-season merchandise that will not be used by a retailer in following seasons
C) merchandise with minor mistakes in construction
D) each different item of merchandise offered by a retailer
E) the number of merchandise categories a retailer offers

15) With respect to retailing, variety is often referred to as the
A) depth of merchandise.
B) assortment of merchandise.
C) quantity of merchandise on hand.
D) breadth of merchandise.
E) stock-keeping units.

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16) With respect to retailing, assortment is often referred to as the
A) breadth of merchandise.
B) depth of merchandise.
C) soft goods available for sale.
D) variety of merchandise.
E) hard goods available for sale.

17) Suits and More stocks over 200 different styles and colors of ties. This assortment of ties can be referred to as the store's
A) consignment merchandise.
B) variety.
C) breadth of merchandise.
D) category specialist.
E) depth of merchandise.

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18) Accepting credit cards, providing parking, and being open at convenient hours are all examples of the_____ offered by retailers.
A) services
B) variety
C) assortment
D) categories
E) depth

19) Large, self-service retail food stores that offer groceries, meat, dairy, and produce are called
A) extreme-value food retailers.
B) full-line discount stores.
C) conventional supermarkets.
D) consignment shops.
E) warehouse clubs.

20) Carrying a much smaller number of SKUs, ALDI and Save-A-Lot are what type of food retailer?
A) conventional supermarket
B) convenience store
C) category specialist
D) cash-and-carry supermarket TBEXAM.COM
E) limited-assortment supermarket

21) What tactic have competing food retailers used to put pressure on conventional supermarkets and capture more consumer business?
A) They have invested in state-of-the-art supply chains to reduce inventories and increase sales margins.
B) They have implemented complex and often deceiving advertising schemes to lure customers away from conventional supermarkets.
C) They have begun to offer their traditional offerings in a conventional supermarket store format.
D) They have eliminated extra services such as pharmacies and flower shops in their stores.
E) They have reduced the number of freestanding stores in favor of online shopping.

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22) When compared to national brands, retailers that offer private-label merchandise
A) are unable to differentiate themselves from the competition.
B) experience increased store loyalty.
C) incur higher promotional costs.
D) realize lower gross margins.
E) reduce their overall profit.

23) When Walmart, Target, and Meijer combine a supermarket with a full-line discount store, they are referred to as
A) supercenters.
B) department stores.
C) full-line discount stores.
D) dual purpose stores.
E) category specialists.

24) A similarity between hypermarkets and supercenters is that both
A) are common in the United States.
B) offer self-service.
C) carry a negotiable percentage of nonfood items.
D) avoid the sale of perishables.
E) lack parking facilities for customers.

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25) What differentiates a hypermarket from a supercenter?
A) Hypermarkets do not offer self-service facilities, whereas supercenters offer self-service facilities to their customers.
B) Hypermarkets carry a larger proportion of food items, whereas supercenters carry a larger portion of nonfood items.
C) Hypermarkets have a greater emphasis on dry groceries, whereas supercenters have a greater emphasis on perishables.
D) Hypermarkets are very common in the United States, whereas supercenters are not common in the United States.
E) Hypermarkets provide large parking facilities to its customers, whereas supercenters do not provide parking facilities to their customers.

26) What type of retail store is Costco considered to be?
A) supercenter
B) hypermarket
C) category specialist
D) warehouse club
E) department store

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27) Which is the best definition of a warehouse club?
- A) They are stores that provide a large variety and assortment of merchandise at a convenient location with speedy checkout.
- B) They are large, self-service retail food stores offering about 30,000 SKUs with high inventory holding costs.
- C) They are retailers that carry a broad variety and deep assortment, offer customer services, and organize their stores into distinct departments for displaying merchandise.
- D) They are retailers that offer a limited and irregular assortment of food and general merchandise with little service at low prices.
- E) They are large stores that combine a supermarket with a full-line discount store.

28) Unlike supermarkets, convenience stores
- A) make customers wait in a long checkout line.
- B) avoid selling lower profit products.
- C) offer a broad variety and deep assortment of merchandise.
- D) offer self-service to its customers.
- E) charge higher prices for similar products sold.

29) Which statement is true regarding online grocery retailers?
- A) Even with the COVID-19 pandemic, the market for online grocery services has not been able to sustain any sort of real growth.
- B) Slim margins are not an issue for online grocery retailers like they are for conventional grocers.
- C) Online orders placed with grocery retailers involve a greater percentage of nonfood items compared to sales in stores.
- D) The ability to streamline the supply chain has reduced online delivery costs removing it as a barrier to growth.
- E) There are not enough retailers offering online grocery options to make it a compelling option for consumers.

30) What can be said of department stores?
- A) They are usually located in local neighborhoods rather than large regional malls.
- B) They often resemble a collection of specialty shops.
- C) They can be categorized into two tiers.
- D) They focus almost exclusively on hard goods.
- E) They offer a limited variety and shallow assortment of merchandise.

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31) A retailer that carries a broad variety and deep assortment, offers customer services, and is organized into distinct sections for displaying merchandise is called a(n)
A) off-price retailer.
B) department store.
C) discount retailer.
D) convenience store.
E) specialty retailer.

32) What type of retailer is Kohl's considered to be?
A) off-price retailer
B) department store
C) full-line discount store
D) extreme value retailer
E) specialty retailer

33) Which retailer is a first-tier department store?
A) Macy's
B) Nordstrom
C) Sears
D) Kohl's
E) JCPenney

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34) Which retailer is a second-tier department store?
A) Macy's
B) Neiman Marcus
C) TJ Maxx
D) Nordstrom
E) Saks Fifth Avenue

35) Which product is an example of a soft good?
A) furniture
B) consumer electronics
C) appliances
D) lawn equipment
E) cosmetics

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36) What can department stores do to differentiate their merchandise offering and strengthen their image?
A) increase their pricing
B) decrease the variety and assortment of merchandise within the store
C) seek exclusive arrangements with nationally recognized brands
D) merge with faltering retailers to gain their market share
E) sell only hard goods

37) Attempting to combat losing market share, department stores are doing all of the following *except*
A) becoming active participants in omnichannel retailing.
B) adding exclusive merchandise to their assortments.
C) differentiating their merchandise offerings to strengthen their image.
D) placing more emphasis on developing their own private-label brands.
E) increasing their prices to gain more net sales.

38) Private-label brands are also called
A) closeouts.
B) category killers.
C) irregulars.
D) inclusive brands.
E) store brands.

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39) A New Day (fashion), All in Motion (activewear), and Good & Gather (grocery products) are examples of Target's
A) national brands.
B) store brands.
C) irregulars.
D) inclusive brands.
E) closeouts.

40) What type of retailer is Target considered to be?
A) off-price retailer
B) department store
C) full-line discount store
D) extreme value retailer
E) specialty retailer

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41) To respond to a competitive environment, one thing that Walmart is doing is
A) converting its discount stores into supercenters.
B) leasing retail space in its stores to independent merchants.
C) focusing on high customer service.
D) converting the discount stores into convenience stores.
E) expanding into rural locations.

42) Which statement about full-line discount stores is true?
A) They carry only private-label merchandise.
B) They have a narrow breadth of merchandise.
C) They typically carry more brands and sizes in each category than department stores.
D) They have inconsistent assortments.
E) They confront intense competition from category specialists.

43) Why are category specialists sometimes called category killers?
A) They are often located close to full-line discount stores and discount stores that offer a deep assortment of merchandise.
B) They are located at stand-alone sites.
C) They have a broad merchandise mix and shallow assortment.
D) They can dominate a category of merchandise making it difficult for other retailers to compete.
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E) They carry mainly technologically obsolete merchandise.

44) Best Buy is a category specialist for the electronics industry. This means the stores
A) offer their customers narrow breadth and depth of merchandise.
B) sell only their own private-label brands.
C) have excellent after-sales customer service.
D) avoid a self-service approach.
E) offer a narrow variety but deep assortment of merchandise.\

45) What type of retail store is Williams-Sonoma considered to be?
A) department store
B) convenient store
C) full-line discount store
D) specialty store
E) supermarket

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46) Which statement is true about specialty stores?
- A) They tailor their retail strategy toward very specific market segments.
- B) They group products by brand instead of product category like in department stores.
- C) They offer very shallow and narrow assortments.
- D) They completely avoid including their own private-label brands in the store.
- E) They discourage sampling.

47) A special type of resale store where merchandise is donated and proceeds go to charity is called a(n)
- A) extreme-value retailer.
- B) thrift store.
- C) consignment shop.
- D) dollar store.
- E) supercenter.

48) To try and make some money, April took some of her old clothes to Just Like New Fashions, a store that accepts used merchandise from people and pays them after it is sold. What type of retailer is this?
- A) dollar store.
- B) consignment shop.
- C) supercenter.
- D) thrift store.
- E) extreme-value retailer.

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49) What type of general merchandise retailers is also referred to as dollar stores?
- A) extreme-value retailers
- B) department stores
- C) full-line discount stores
- D) category specialists
- E) specialty stores

50) What type of a retail store is Walgreens considered to be?
- A) full-line discount store
- B) drugstore
- C) department store
- D) convenience store
- E) supercenter

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51) What type of retail store is Dollar General considered to be?
- A) off-price retailer
- B) department store
- C) full-line discount store
- D) extreme-value retailer
- E) specialty retailer

52) The drugstore industry has seen a decrease in their annual sales mainly due to
- A) higher prices on prescription drugs.
- B) pharmacies in full-line discount stores.
- C) the aging population.
- D) government regulations on pharmaceutical sales.
- E) the wide assortment of merchandise they sell

53) _____ offer an inconsistent assortment of brand-name merchandise at a significant discount off the manufacturers' suggested retail price.
- A) Off-price retailers
- B) Department stores
- C) Discount retailers
- D) Convenience stores
- E) Specialty retailers

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54) What type of store is TJ Maxx considered to be?
- A) off-price retailer
- B) department store
- C) full-line discount store
- D) extreme-value retailer
- E) specialty retailer

55) Which statement is true of off-price retailers?
- A) They offer a consistent assortment of soft goods at low prices.
- B) They sell brand-name merchandise at reduced prices.
- C) They sell their merchandise in stores, but not online.
- D) They require suppliers to give them a variety of advertising allowances and markdown discounts.
- E) They sell designer-label merchandise at 20 to 60% higher than the manufacturer's suggested retail price.

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56) What type of merchandise is purchased by off-price retailers?
- A) one-of-a-kind specialty merchandise
- B) excess inventory, closeouts, and irregular merchandise
- C) large varieties and assortments of bulk merchandise
- D) expensive, hard-to-sell merchandise
- E) a complete assortment of only one category of merchandise

57) _____ are products that have minor mistakes in the construction.
- A) Closeouts
- B) Irregulars
- C) Category killers
- D) Soft goods
- E) Hard goods

58) _____ are end-of-season merchandise that will not be in the manufacturer's offerings going forward.
- A) Closeouts
- B) Irregulars
- C) Endcaps
- D) Category killers
- E) Soft goods

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59) _____ are off-price retailers owned by manufacturers or retailers.
- A) Dollar stores
- B) Closeouts
- C) Thrift stores
- D) Outlet stores
- E) Supercenters

60) An online version of off-price retailing is a(n)_____ sale where each day at the same time, members receive an e-mail that announces unique deals available for a specific limited time.
- A) closeout
- B) clearance
- C) enterprise
- D) irregular
- E) flash

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61) A special type of off-price retailer owned by manufacturers is called a
A) consignment shop.
B) thrift store.
C) dollar store.
D) warehouse club.
E) factory outlet.

62) The dry cleaner that cleans your clothes, the salon that cuts your hair, and the dealer that changes the oil in your car are all examples of
A) dollar stores.
B) off-price retailers.
C) service retailers.
D) specialty stores.
E) full-line discount stores.

63) Services are difficult to be evaluated before customers buy or even after they buy and consume them. Which characteristic of service causes this challenge for service retailers?
A) intangibility
B) perishability
C) inconsistency
D) consumability
E) compatibility

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64) How can a service retailer best cope with the problems associated with the intangibility of service?
A) Use low prices during off-seasons to help match supply and demand.
B) Use mass production.
C) Emphasize quality control.
D) Solicit customer evaluations and complaints.
E) Increase staffing at peak demand times.

65) A psychologist has her diplomas prominently displayed above her large desk, which sits on a Persian rug in an office filled with tasteful, yet expensive furnishings. Which service characteristics is the psychologist trying to handle with her office décor?
A) intangibility
B) perishability
C) inconsistency
D) consumability
E) compatibility

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66) Ned notices that sometimes when he goes to his favorite restaurant he gets great service, but other times the service is terrible. This *best* illustrates which characteristic of services?
A) intangibility
B) perishability
C) inconsistency
D) consumability
E) compatibility

67) Due to the_____ of services, service retailers like restaurants, sometimes find it difficult to match supply and demand.
A) intangibility
B) perishability
C) inconsistency
D) consumability
E) compatibility

68) What does it mean to say a service is perishable?
A) It cannot be saved, stored, or resold.
B) It cannot be seen or touched.
C) It is inconsistent in quality.
D) It has simultaneous production and consumption.
E) It can be held in inventory until ready to be used.

69) What is true of single-store retailers?
A) They do not have direct contact with their customers.
B) They are not bound by the bureaucracies inherent in large retail organizations.
C) They are totally independent of their owner-managers' capabilities to make any retail decision.
D) They must join a wholesale-sponsored voluntary competitive group to compete against corporate chains.
E) They are very rigid and lack quick adaptability to market changes and customer needs.

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70) A company that operates multiple retail units under common ownership and usually has a centralized decision making for defining and implementing its strategy is referred to as a(n)
A) voluntary cooperative group.
B) retail chain.
C) wholesale group.
D) service retailer.
E) A retail chain operates multiple retail units under common ownership and usually has centralized decision making for defining and implementing its strategy. Retail chains can range in size from a drugstore with two stores to retailers with thousands of stores, such as Kroger, Walmart, and Best Buy.

71) What is a drawback of the franchise ownership?
A) The franchisee lacks any kind of off- or onsite training from the franchisor.
B) The franchisor lacks any benefit from the success of his or her franchisee.
C) The franchisee must adhere to the franchisor's rules and operating guidelines.
D) The franchisee must join a single-store retailer to become independent of the franchisor.
E) The franchisor must incur the capital costs like purchase and modification of the retail space.

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ESSAY. Write your answer in the space provided or on a separate sheet of paper.

72) Differentiate between variety and assortment of merchandise offered by a retailer.

73) Explain the strategies that limited-assortment supermarkets (extreme-value food retailers) use in order to provide customers with high-quality merchandise at low prices to compete against other food retailing formats.

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74) How are department stores categorized into tiers? How do the tiers differ? Give examples of each tier.

75) Discuss the reasons that department stores are losing their market share to discount stores, and list the steps taken by department stores to deal with their eroding market share.

76) Describe what category specialist retailers are while providing specific examples of category specialist retailers and how they differentiate themselves from their competitors.

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77) Explain what drugstores do to remain competitive in the marketplace.

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78) Discuss how off-price retailers opportunistically obtain their merchandise and the different types of merchandise found at off-price retailers.

79) Describe the four important differences in the nature of the offerings provided by services and merchandise retailers.

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80) What is franchising? What does a franchisor offer its franchisees to get the franchisees off to a good start?

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Answer Key

Test name: Chapter 02

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

2) FALSE
Variety (also called breadth) is the number of merchandise categories a retailer offers. Assortment (also called depth) is the number of different items offered in a merchandise category.

3) FALSE
The food retailing landscape is changing dramatically. Thirty years ago, consumers purchased food primarily at conventional supermarkets. Now conventional supermarkets account for less than 45% of food sales (not including restaurants).

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4) FALSE
Walmart is a full-line discount store. Off-price retailers offer an inconsistent assortment of brand-name merchandise at a significant discount off the manufacturers' suggested retail price (MSRP), and Walmart has consistent assortments.

5) TRUE
Extreme-value retailers primarily target customers that want well-known brands but cannot afford to buy the large-sized packages offered by full-line discount stores or warehouse clubs. Because these stores appeal to budget conscious consumers, are located where they live, and have expanded their assortments while keeping their unit prices low, they have cut into other retailers' businesses, including Walmart.

6) TRUE
Due to the intangibility of their offerings, services retailers often use tangible symbols to inform customers about the quality of their services. For example, they might solicit customer evaluations and provide visible responses to any complaints, as well as direct potential consumers to online evaluation systems such as Angie's List or Yelp that compile reviews from other consumers.

7) FALSE

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Profit doesn't play a role in comparing the differences between service retailers and merchandise retailers. Differences are intangibility, simultaneous production and consumption, perishability, and inconsistency of the offering to customers.

8) FALSE
The opposite is true—whereas single-store retailers can tailor their offerings to their customers' needs, corporate chains can more effectively negotiate lower prices for merchandise and advertising because of their larger size. Corporate chains can and do invest in sophisticated analytical systems to help them buy and price merchandise.

9) E
Edge computing is a marketing analysis method that gathers and applies data precisely where they are most beneficial. Walmart supercenters are revamping to become sources of data for edge computing.

10) C
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. The classifications for retailers selling merchandise are based largely on the type of merchandise sold.

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11) B
Assortment is the number of different items offered in a merchandise category. It is referred to as the depth of merchandise.

12) D
Variety is the number of different merchandise categories a retailer offers, also known as the breadth of merchandise.

13) C
Variety is the number of different merchandise categories a retailer offers, also known as the breadth of merchandise. Since this store only carries one stock-keeping unit (SKU), mini-sized dorm refrigerators, it has very little variety. It may have good product depth if it offers the mini-sized refrigerators in many different colors and sizes, but this information is not given.

14) D
Each different item of merchandise is called a stock-keeping unit (SKU). Some examples of SKUs include an original scent, 33-ounce box of Tide laundry detergent with bleach, or a blue, long-sleeve, button-down-collar Ralph Lauren shirt, size medium.

15) D

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Variety is the number of different merchandise categories a retailer offers. Variety is often referred to as the breadth of merchandise.

16) B
Assortment is the number of different items offered in a merchandise category. Assortment is referred to as the depth of merchandise.

17) E
The depth of merchandise refers to the different items offered in a merchandise category. "Ties" would be the category with many different colors and styles giving great depth for the customer.

18) A
Retailers differ in the services they offer customers. Customers expect almost all retailers to provide certain services: displaying merchandise, accepting credit cards, providing parking, and being open at convenient hours.

19) C
A conventional supermarket is a large, self-service retail food store offering groceries, meat, dairy, and produce.

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20) E
The two largest limited-assortment supermarket chains in the United States are Save-A-Lot and ALDI. Whereas conventional supermarkets carry about 40,000 SKUs, limited-assortment supermarkets and extreme-value food retailers tend to stock only about 1,400 SKUs.

21) A
Many of the retailers that compete with conventional supermarkets have invested heavily in state-of-the-art supply chains, assortment planning, and pricing systems that reduce their inventories while increasing their sales and margins.

22) B
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.

23) A
Supercenters are large stores (160,000 to 200,000 square feet) that combine a supermarket with a full-line discount store. Walmart operates more than 3,500 supercenters in the United States.

24) B

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Hypermarkets are not common in the United States. Both hypermarkets and supercenters carry grocery and general merchandise categories, offer self-service, and are located in warehouse-type structures with large parking facilities. However, hypermarkets carry a larger proportion of food items than do supercenters and have a greater emphasis on perishables.

25) B
Hypermarkets carry a larger proportion of food items than do supercenters. Supercenters have a larger percentage of nonfood items.

26) D
Costco is considered to be a warehouse club. Warehouse clubs are retailers that offer a limited and irregular assortment of food and general merchandise with little service at low prices for ultimate consumers and small businesses.

27) D
Warehouse clubs are retailers that offer a limited and irregular assortment of food and general merchandise with little service at low prices for ultimate consumers and small businesses.

28) E
Convenience stores generally charge higher prices for similar products like milk, eggs, and bread. Convenience stores provide a limited variety and assortment of merchandise at a convenient location in 3,000- to 5,000-square-foot stores with speedy checkout.

29) C
Online grocery retail is the fastest-growing segment of the overall grocery market. Online orders placed with grocery retailers involve greater percentage of nonfood items compared to sales in stores. Consumers thus rely on online grocers for nonperishable items, with their lower profit margins, rather than for fresh fruit or meats, which provide greater margins to retailers. As a result, slim margins continue to be a problem for both retailers and delivery services.

30) B
The department store often resembles a collection of specialty shops. Each department within the store has a specific selling space allocated to it, as well as salespeople to assist customers.

31) B
A retailer that carries a broad variety and deep assortment, offers customer services, and is organized into distinct sections for displaying merchandise is called a department store. Some department store chains in the United States include Macy's, Dillard's, and Nordstrom.

32) B

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Kohl's is part of a value-oriented third tier department store that caters to more price-conscious consumers.

33) B
First-tier department stores include upscale, high-fashion chains with exclusive designer merchandise and excellent customer service. Nordstrom, Neiman Marcus, Bloomingdale's, and Saks Fifth Avenue are first-tier department stores.

34) A
Second-tier department stores are retailers who sell more modestly priced merchandise with less customer service than first-tier stores. Macy's and Dillards are examples of second-tier department stores.

35) E
Soft goods are nondurable or consumable goods that have a shorter life span, such as cosmetics, clothing, and bedding. Hard goods, also known as durable goods are manufactured items that are expected to last several years, such as appliances, furniture, and consumer electronics.

36) C
To differentiate their merchandise offerings and strengthen their image, department stores are aggressively seeking exclusive brands in which national brand vendors sell them merchandise that is not available elsewhere.

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37) E
Department stores are trying hard to not lose market share. Therefore, they are expanding omnichannel retailing, adding exclusive merchandise, developing stronger marketing campaigns, and placing more emphasis on developing their own private-label brands.

38) E
Private-label brands are also called store brands. These items are developed and marketed by the retailer, available only in its stores.

39) B
Target has been very successful in developing a strong image for its brands, including A New Day (fashion), All in Motion (activewear), and Good & Gather (grocery products).

40) C
Target is one of the largest full-line discount store chains. Full-line discount stores are retailers that offer a broad variety of merchandise, limited service, and low prices.

41) A

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Walmart is converting many of its discount stores into supercenters. Supercenters are more efficient than traditional discount stores because of the economies of scale that result from the high traffic generated by the food offering.

42) E
Full-line discount stores confront intense competition from category specialists that focus on a single category of merchandise.

43) D
By offering a complete assortment in a category, category specialists can "kill" a category of merchandise for other retailers and thus are frequently called category killers.

44) E
Category specialists are big-box stores that offer a narrow but deep assortment of merchandise. Most category specialists predominantly use a self-service approach, but they offer assistance to customers in some areas of the stores.

45) D
Williams-Sonoma leads the specialty housewares market in the United States, with its range of high-end appliance brands, popular private-label soaps and sauces, and decorative accents.

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46) A
Specialty stores tailor their retail strategy toward very specific market segments by offering deep but narrow assortments, along with sales associates who have substantial expertise. Specialty stores concentrate on a limited number of complementary merchandise categories and provide a high level of service.

47) B
A special type of resale store where merchandise is donated and proceeds go to charity is called a thrift store. Resale stores are retailers that sell secondhand or used merchandise.

48) B
A type of resale store that accepts used merchandise from people and pays them after it is sold is called a consignment shop. Resale stores are retailers that sell secondhand or used merchandise.

49) A
Extreme-value retailers are also called dollar stores. They are small discount stores that offer a broad variety but shallow assortment of household goods, health and beauty care products, and groceries.

50) B

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Walgreens is one of the largest drugstores in the United States. Drugstores are specialty stores that concentrate on health and beauty care products.

51) D
Dollar General is one of the largest extreme-value retailers. Extreme-value retailers, also called dollar stores, are small discount stores that offer a broad variety but shallow assortment of household goods, health and beauty care products, and groceries.

52) B
Drugstores face competition from pharmacies in discount stores and online, even as they also confront strong societal pressures to help reduce health care costs.

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

54) A
TJ Maxx is one of America's largest off-price retail chains. Off-price retailers offer an inconsistent assortment of brand-name merchandise at a significant discount off the manufacturers' suggested retail price (MSRP).

55) B
Off-price retailers offer an inconsistent assortment of brand-name merchandise at a significant discount off the manufacturers' suggested retail price (MSRP). Off-price retailers are able to sell brand-name and even designer-label merchandise at 20 to 60% lower than the manufacturer's suggested retail price.

56) B
Much of the merchandise is bought opportunistically from manufacturers that experience overruns, canceled orders, forecasting mistakes that create excess inventory, closeouts, or irregulars. They also buy excess inventory from other retailers.

57) B
Irregulars are merchandise with minor mistakes in construction.

58) A

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Closeouts are end-of-season merchandise that will not be used in following seasons.

59) D
A special type of off-price retailer is the outlet store. Outlet stores are off-price retailers owned by manufacturers or retailers. Those owned by manufacturers are also referred to as factory outlets.

60) E
An online twist to off-price retailing comes from flash sale sites such as Gilt, Groupon, Beyond the Rack, Zulily, and Rue La La. These sites send e-mails to registered members announcing the unique deals available for a specific limited time.

61) E
A special type of off-price retailer owned by manufacturers is called a factory outlet. Outlet stores are off-price retailers owned by manufacturers or retailers.

62) C
Service providers instead primarily sell services, even if they might offer a few products that go along with those services.

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63) A
Intangibility introduces several challenges for service providers. Because customers cannot touch and feel services, it is difficult for some consumers to evaluate services before they buy them or even after they buy and consume them.

64) D
Services retailers often solicit customer evaluations and scrutinize complaints to cope with the problems associated with the intangibility of service. Services are less tangible than products—customers cannot see, touch, or feel them. They are performances or actions rather than objects.

65) A
Since customers cannot see, touch, or feel what is being sold, the intangibility of the service can sometimes be a concern for customers in trying to decide whether to buy or not. Having tangible symbols, such as the earned degrees on the wall, helps to give confidence to the customer about the psychologist's credentials. The elaborate furnishings are a subtle way of exuding success and accomplishments, giving the customers additional confidence in the services they are about to purchase.

66) C

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Because services are performances produced by people (employees and customers), no two services will be identical. Products can be produced by machines with very tight quality controls. Customers can be reasonably confident that all boxes of Cheerios will be identical. But because services are performances produced by people (employees and customers), no two services will be identical.

67) B
Due to the perishability of services, service providers must match supply and demand. Most service retailers have a capacity constraint, and their capacity cannot be changed easily. There are a fixed number of tables in a restaurant. To increase capacity, service providers need to make major investments, such as an addition to increase the size of the restaurant.

68) A
Feedback: Services are perishable. They cannot be saved, stored, or resold.

69) B
Single-store retailers are not bound by the bureaucracies inherent in large retail organizations. Many retail start-ups are owner-managed, which means management has direct contact with customers and can respond quickly to their needs.

70) B
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71) C
There are several drawbacks to franchise ownership. In addition to incurring the capital costs, the franchisee must adhere to the franchisor's rules and operating guidelines.

72) Essay
Variety is the number of merchandise categories a retailer offers. Assortment is the number of different items offered in a merchandise category. Variety is often referred to as the breadth of merchandise, and assortment is referred to as the depth of merchandise.

73) Essay

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Limited-assortment supermarkets only stock about 1,400 SKUs, but conventional supermarkets carry about 40,000 SKUs. Limited-assortment supermarkets offer one or two brands and sizes, one of which is a store brand. Stores are designed to maximize efficiency and reduce costs. For example, merchandise is shipped in cartons on crates that can serve as displays so that no unloading is needed. Some costly services that consumers take for granted, such as free bags and paying with credit cards, are not provided. Stores are typically located in second- or third-tier shopping centers with low rents. By trimming costs, limited-assortment supermarkets can offer merchandise at prices lower than those at conventional supermarkets. These features have supported the substantial growth of such retailers, which appeal strongly to customers who are not loyal to national brands and more willing to try a store brand, especially if it means they pay lower prices.

74) Essay
Department store chains are categorized into three tiers. The first tier includes upscale, high-fashion chains with exclusive designer merchandise and excellent customer service, such as Neiman Marcus, Nordstrom, Saks Fifth Avenue, and Bloomingdale′s. Macy′s and Dillards are in the second tier of traditional department stores, in which retailers sell more modestly priced merchandise with less customer service. Kohls is part of a value-oriented third tier that caters to more price-conscious consumers.

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75) Essay
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Many consumers view department stores as not as convenient as discount stores, such as Target, because they are located in large regional malls rather than local neighborhoods. Customer service has diminished in the second- and third-tier stores because of the retailers′ desire to increase profits by reducing labor costs. To deal with their eroding market share, department stores are (1) increasing the amount of exclusive merchandise they sell, (2) increasing their use of private-label merchandise, and (3) expanding their omnichannel presence.

76) Essay
Category specialists are big-box stores that offer a deep assortment but narrow variety of merchandise. Most category specialists rely on a self-service approach, but they offer assistance to customers in some areas of the stores. For example, IKEA stores have a main showroom area, along with a warehouse section where employees help consumers load products they have purchased into their cars. By offering a complete assortment in a category, category specialists can "kill" a category of merchandise for other retailers and thus are frequently called category killers. Using their category dominance and buying power, they buy products at low prices and are ensured of supply when items are scarce. Department stores and full-line discount stores located near category specialists often have to reduce their offerings in the category because consumers are drawn to the deep assortment and competitive prices at the category killer.

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77) Essay
Drugstores face competition from pharmacies in discount stores and online, and from strong societal pressure to reduce health care costs. In response to these threats, the major drugstore chains are offering a wider assortment of merchandise, including more frequently purchased food items. They also have added services, such as convenient drive-through windows and curbside pickup options for prescriptions, in-store medical clinics, and even makeovers and spa treatments.

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

79) Essay

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

(1) Intangibility
Services are less tangible than products—customers cannot see or touch them. They are performances or actions rather than objects. For example, eye care services cannot be seen or touched by a patient. Intangibility introduces several challenges for services retailers. Because customers cannot touch and feel services, it is difficult for them to evaluate services before they buy them or even after they buy and consume them.

(2) Simultaneous production and consumption
Products are typically made in a factory, stored and sold by a retailer, and then used by consumers in their homes. Service providers, however, create and deliver the service as the customer is consuming it. For example, when you eat at a restaurant, the meal is prepared and consumed almost at the same time.

(3) Perishability
Services are perishable. They cannot be saved, stored, or resold. Once an airplane takes off with an empty seat, the sale is lost forever. In contrast, merchandise can be held in inventory until a customer is ready to buy it. Due to the perishability of services, services retailing must match supply and demand.

(4) Inconsistency of the offering to customers
Products can be produced by machines with very tight quality control, so customers are reasonably assured that all boxes of Cheerios will be identical. But because services are performances produced by people (employees and customers), no two services will be identical.

80) Essay
Franchising is a contractual agreement in which the franchisor (the company) sells the rights to use its business trademark, service mark, or trade name, or another commercial symbol of the company, to the franchisee for a one-time franchise fee and an ongoing royalty fee, typically expressed as a percentage of gross monthly sales. To get franchisees off to a good start, most franchisors provide offsite and onsite training, location analysis assistance, advertising, and sometimes a protected territory (i.e., no other franchise may open a store within a certain radius of the first store). Some franchisors even provide financing or offer third-party financing opportunities.

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CHAPTER 2
TYPES OF RETAILERS

ANNOTATED OUTLINE	INSTRUCTOR NOTES
I. Retailer Characteristics • The 1.1 million U.S. store-based retailers range from street vendors selling hot dogs to omnichannel retailers that offer thousands of products in their stores, through catalog and Internet channels. • The retail industry is always evolving. As consumer needs and competition within the industry change, new retail formats are created to respond to those changes. • The most basic characteristic of a retailer is its retail mix – the elements used to satisfy its customers' needs. • Four elements of the retail mix that are particularly useful for classifying retailers are: (1) the type of merchandise sold, (2) the variety and assortment of merchandise and/or services sold, (3) the level of customer service, and (4) the price of the merchandise. TBEXAM.COM	*LO 2-1 List the different characteristics that define retailers.* *Ask students to compare the four elements of the retail mix -- the type of merchandise sold, the variety and assortment of merchandise and/or services sold, the level of service provided to customers, and price -- of two women's specialty stores. Now compare the retail mixes of one of the specialty stores and the local discount store (e.g., Walmart). 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.* *PPT 2-4 illustrates classification of retailers by merchandise offering and by variety and assortment.*
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.	
B. Variety and Assortment • Variety is the number of merchandise categories a retailer offers. Assortment is the number of different items in a merchandise category. Each different item of merchandise is called a SKU (stock-keeping unit). • Variety is often referred to as the breadth of merchandise and assortment is referred to as the depth of merchandise.	*See PPT 2-5* *Ask students to give examples of local retailers with low variety and high assortment, and retailers with high variety and low assortment.* *What benefits does high variety*

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	offer to customers? What is the benefit of high assortment? *Ask student to give an example of an SKU.*
C. Services Offered • Retailers also differ in the services they offer customers. Customers expect retailers to provide some services--accepting credit cards, displaying merchandise, providing parking, and being open long and convenient hours. • Some retailers charge customers for other services, such as home delivery and gift wrapping, although upscale retailers offer customers these services at no charge.	*See PPT 2-6* *Discuss the different customer service policies of a specialty store like Apple and a local department store or an Internet retailer.* *Discuss how customers' expectations differ at each type of store.*
D. Prices and the Cost of Offering Breadth and Depth of Merchandise and Services • Stocking a deep and broad assortment is appealing to customers but costly for retailers. When a retailer offers many SKUs, inventory investment increases because the retailer must have back-up stock for each SKU. • Similarly, services attract customers to the retailer, but they are also costly. • To make a profit, retailers that offer broader and deeper assortments and services need to charge higher prices. • A critical retail decision involves the trade-off between costs and benefits of maintaining additional inventory or providing additional services.	*See PPT 2-7* *Customers like wide variety, deep assortments, and a lot of service, though some customers appreciate having the retailer edit the assortment for them. Ask students why all retailers don't have this type of offering. (Retailers have constraints of money, size of store, and limited number of employees.)* *Why don't discount stores offer more services? (They appeal to a target segment that does not want to pay the cost for more service options.)*

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II. Food Retailers • Twenty years ago, consumers purchased food primarily at conventional supermarkets. Now conventional supermarkets account for less than 65 percent of food sales. • Supercenters, warehouse clubs, convenience stores, and extreme-value food retailers are significantly changing consumers' food purchasing patterns because they too sell food. At the same time, traditional food retailers carry many nonfood items. • The world's largest food retailer is Walmart with supermarket-type sales of more than $485 billion.	*LO 2-2 Categorize the various types of food retailers.* *See PPT 2-8* *Where do students make the majority of their off-campus food purchases? What are the pros and cons of these different food retailer formats?* *Ask students where they see the direction of food retailers going in the next 20 years. Will customers use more online grocery food retailers?*
A. Supermarkets • A conventional supermarket is a self-service food store offering groceries, meat, produce, and limited nonfood items. • A limited-assortment supermarket (also called an extreme-value food retailer) only stocks about 1,500 SKUs. The two largest US examples of these stores are Save-A-Lot and ALDI. • Limited-assortment supermarkets are designed to maximize efficiency and reduce costs through limited assortment and service offerings. These cost savings and efficiencies allow the stores to charge significantly lower (40% lower) prices than conventional supermarkets.	*See PPT 2-10* *Ask students to consider the retail mixes of the major supermarkets in the area surrounding campus. Which compete on price? On merchandise? On service? A combination?* *Do students have concerns about the quality of items at conventional supermarkets versus limited-assortment supermarkets?*
1. Trends in Supermarket Retailing • Today, conventional supermarkets are under substantial competitive pressure on multiple sides: from supercenters, online retailers, warehouse clubs, extreme-value retailers, convenience stores, and even drugstores. All these types of retailers have increased the amount of space (virtual or physical) that they devote to consumables. • Low-cost competitors are especially challenging for	*See PPT 2-11* *Ask students about why they would continue to shop at conventional supermarkets. Alternatively, why would they shop for food at supercenters, warehouse clubs, or convenience stores? What types of needs are fulfilled by conventional*

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conventional supermarkets because of their superior operating efficiencies. • To compete successfully with intrusions by other types of retailers, conventional supermarkets have taken steps to differentiate their offerings by (1) emphasizing fresh perishables; (2) targeting green, ethnic, and Millennial consumers; (3) providing better value with private-label merchandise; (4) adding new value-added services such as online ordering; and (5) providing a better shopping experience, such as by adding restaurant options or hosting social events. •	*supermarkets that can't be filled through other food retailing formats? Based on these discussions, will conventional supermarkets be driven out of business by competing formats?*
2. Fresh Merchandise • Fresh-merchandise categories are located in the areas around the outer walls of a supermarket, known as the power perimeter, and include the dairy, bakery, meat, florist, produce, deli, and coffee bar. • Conventional supermarkets are building on their strength in fresh-merchandise categories and devoting more space and attention to them as they attract customers and are very profitable.	
3. Green Merchandise • Conventional supermarkets are offering more fair trade, natural, organic, and locally sourced foods for the growing segment of consumers who are health and environmentally conscious. • Fair trade is the practice of purchasing from suppliers that pay workers a living wage, considerably more than the prevailing minimum wage, and offer other benefits such as onsite medical treatment. • The locavore movement focuses on reducing the carbon footprint caused by the transportation of food throughout the world. Traditional supermarket chains are offering more locally grown products.	*Discuss if students would pay more for local produce, and if by doing so, it would improve the carbon footprint in the world. Does paying more for fair trade make students feel like they are contributing to the betterment of society? By marketing these efforts, does it make food retailers less genuine in their approach?*
4. Ethnic Merchandise • Retailers are adding more ethnic merchandise in conventional supermarkets, and opening supermarkets targeting certain ethnic markets.	

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5. Private-Label Merchandise • Conventional supermarket chains are leveraging their quality reputation to offer more private-label merchandise which helps build store loyalty, earn higher margins, and differentiate stores from their competitors. • Benefits to customers include having more choices and finding the same ingredients and quality as in national brands at a lower price or higher quality at a similar price to the national brands.	*Ask students to think about what products they purchase at food stores that are "private label." Discuss if quality or price plays a greater role in their decision to purchase these products.*
6. Improving the Shopping Experience • Creating an enjoyable shopping experience through better store ambience and customer service is used to differentiate supermarket chains from low-cost, low-price competitors. • Supermarkets are increasingly incorporating "food as theater" concepts, such as in-store restaurants, open-air market designs, cooking and nutrition classes, demonstrations, baby-sitting services, food and wine tasting, and self-service kiosks.	*Ask students to list what types of experiences they have seen in the food retailers they visit. Discuss if these experiences motivate them to continue to shop there.*
B. Supercenters • Supercenters are the fastest growing retail category. At 160,000 to 20,000 square feet, these stores offer a wide variety of food and non-food merchandise. The largest supercenters are Walmart supercenters, Meijer, Super Kmart (Sears Holding), Fred Meyer (a division of Kroger), and SuperTarget. • By offering broad assortments of grocery and general merchandise under one roof, supercenters provide a one-stop shopping experience. • General merchandise items are often purchased at supercenters. These items have higher margins, which allows supercenters to offer food items at a more aggressive price. • However, since supercenters are very large, some customers find them inconvenient because it can take a long time to find the items they want. • Hypermarkets are also large, about the same size as supercenters, and have a combination of food and general	*See PPT 2-13 for an illustration of the characteristics of supercenters and warehouse clubs.* *The supercenter is one of the fastest growing retail formats. Why is the supercenter more attractive than a hypermarket in the U.S., but not in Europe? What are benefits to consumers shopping in supercenters versus conventional supermarkets? What are the disadvantages?* *Ask students if they prefer the supercenter model to a traditional supermarket. How do students feel about the growth of Walmart? Do students prefer Walmart's format over Target? Why?*

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merchandise. Hypermarkets typically stock fewer SKUs than supercenters. • Popular in both Europe and South America, hypermarkets are not common in the United States. Located in large, warehouse-type structures with large parking facilities, hypermarkets typically carry a larger selection of food items than supercenters and have a greater emphasis on perishables. • Supercenters place greater emphasis on general merchandise and dry grocery items such as breakfast cereals and canned goods. • Although supercenters and hypermarkets are the fastest growing categories in global retailing today, these retailers do face challenges in finding and acquiring appropriate land for building (particularly in Europe and Japan), along with backlash against these large stores, particularly in the U.S.	
C. Warehouse Clubs • A warehouse club is a retailer that offers a limited and irregular assortment of food and general merchandise with little service at low prices to ultimate consumers and small businesses. • Stores are large (at least 100,000 to 150,000 square feet) and located in low-rent districts. • Warehouse clubs reduce prices by using low-cost locations and inexpensive store designs, and offering little customer service. They reduce inventory holding costs by carrying a limited assortment of fast-selling items and buying merchandise opportunistically. • Warehouse clubs accordingly have had substantial influences on retailing and its structure. Between 1992 and 2013, warehouse club sales increased from $40 billion to $420 billion. • Most warehouse clubs have two types of members: wholesale members who own small businesses and individual members who purchase for their own use. Typically, members must pay an annual fee.	*See PPT 2-14 for an illustration of the characteristics of supercenters and warehouse clubs.* *Ask students to give local examples of warehouse clubs. What is the target market for warehouse clubs? (Consumers with larger families and small businesses.)* *Are warehouse clubs wholesalers or retailers? (When they sell to small businesses they are wholesalers. When they sell to individual members for personal or household use, they are retailers.)* *Ask students if they are members of a warehouse club. Do they prefer warehouse clubs to supercenters?*
D. Convenience Stores	*See PPT 2-15 for an overview of the characteristics of convenience*

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• Convenience stores provide a limited variety and assortment of merchandise at a convenient location in a 3,000-to-5,000-square-foot store with a speedy checkout, with higher prices than supermarkets. They are a modern version of the neighborhood mom-and-pop grocery/general store. • Convenience stores enable consumers to make purchases quickly without having to search through a large store and wait in long checkout lines. • Convenience stores generally charge a higher price than supermarkets for staple items like milk, eggs, and bread. • Convenience stores are facing increasing competition from other retail formats, especially from supercenters and supermarket chains who have added gasoline to their merchandise offerings, often tying gasoline sales to their frequent-shopper programs. • In response to these competitive threats, convenience stores are taking steps to decrease their dependency on gasoline sales by tailoring their merchandise assortments to local markets, making their stores even more convenient to shop, and adding new services. TBEXAM.COM • To increase convenience, some convenience stores are opening smaller stores close to where consumers shop and work. Others are exploring the use of technology to increase shopping convenience such as self-service kiosks.	*stores* *Ask students to give examples of local convenience stores.* *Which products do they tend to buy most often at convenience stores?* *What do they like/dislike about them? In general, what is so "convenient" about convenience stores?* *What services do students believe would make a convenience store more "convenient"?*
E. Online Grocery Retailers • Time-poor customers are willing to pay more to access options for ordering groceries online and having them delivered. • Consumers thus rely on online grocers for lower-profit-margin nonperishable items, rather than higher-margin fresh fruit or meats. Therefore, slim margins continue to be a problem for both retailers and delivery services. • Delivery costs are also a factor that might reflect a barrier to the industry's growth.	
III. General Merchandise Retailers • The major types of general merchandise retailers are department stores, full-line discount stores, specialty	*LO 2-3 Identify the various types of general merchandise retailers.* *PPT 2-17 and 2-18 compare the*

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stores, drugstores, category specialists, extreme-value retailers, off-price retailers, and outlet stores.	*various types of general merchandise retailers along several characteristics.*
A. Department Stores • Department stores are retailers that carry a broad variety and deep assortment, offer some customer services, and are organized into separate departments for displaying merchandise. • The largest department store chains in the U.S. are Macy's, Sears, JCPenney, Kohl's, and Nordstrom. • Today, most department stores focus almost exclusively on soft goods. The major departments are women's, men's, and children's clothing and accessories; home furnishings; cosmetics; and kitchenware and small appliances. • Each department within the store has a specific selling space allocated to it as well as salespeople to assist customers, often resembling a collection of specialty shops. • Department store chains can be categorized into three tiers: (1) upscale, high-fashion chains with exclusive designer merchandise and excellent customer service (Neiman Marcus, Nordstrom, Bloomingdale's, Saks); (2) traditional chains with more moderately priced merchandise and less customer service (Macy's and Dillard's); and (2) value-oriented chains catering to price-conscious consumers (Sears, Kohl's and JCPenney). • Today many customers question the benefits of shopping at department stores due to: (1) lack of convenient locations, (2) decreases in customer service, and (3) relatively high prices. • To deal with their eroding market share, department stores are (1) increasing the amount of exclusive merchandise they sell, (2) increasing their use of private-label merchandise, and (3) expanding their omnichannel presence.	*See PPT 2-19* *Ask students to give examples of local department stores. Why do customers go to department stores? What do they like/dislike about them?* *Ask students to give local examples of specialty stores. What are the differences between specialty stores, department stores, and discount stores? Where do students buy business suits, dresses, jeans, computers, and electronics? Why do they go to that type of store?* *Which department stores do students prefer? Which tier do they shop most often? Discuss differences in these responses.*
B. Full-Line Discount Stores • A full-line discount store is a retailer that offers a broad variety of merchandise, limited service, and low prices.	*See PPT 2-20* *Discuss the target markets of the three largest full-line discount store chains (Walmart, Target,*

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They offer both private and national brands. • The big three full-line discount store chains are Walmart, Target, and Kmart (Sears Holding). • A significant trend in this sector is Walmart's conversion of discount stores to supercenters because of increased competition faced by the full-line discount stores, as well as the significant operating efficiencies realized by supercenters. • Target is becoming one of the most successful retailers in terms of sales growth and profitability, succeeding because its stores offer fashionable merchandise at low prices in a pleasant shopping environment.	*and Kmart). How will the category specialists (Staples, Best Buy, Home Depot) affect the retail strategy of full-line discount store chains? What about Internet only retailers? Are discount stores going to succeed in the "clicks" environment?* *In general, what are the factors that contribute to the success of discount stores despite increasing competition from other formats?*
C. Category Specialist • A category specialist is a big-box discount store that offers a narrow variety but deep assortment of merchandise. These retailers predominantly use a self-service approach, but they offer assistance to customers in some areas of the store. • By offering a complete assortment in a category at low prices, category specialists can "kill" a category of merchandise for other retailers and thus are frequently called category killers. • Because category specialists dominate a category of merchandise, they can use their buying power to negotiate low prices, and are ensured supply when items are scarce. • One of the largest and most successful types of category specialist is the home improvement center. A home improvement center is a category specialist offering equipment and material used by do-it-yourselfers and contractors to make home improvements. • While merchandise in home-improvement centers is displayed in a warehouse atmosphere, salespeople are available to assist customers in selecting merchandise and to tell them how to use it. • Competition between specialists in each category is very intense (Staples vs. Office Depot; Home Depot vs. Lowe's) as firms expand into the regions originally dominated by another firm. Direct competition focuses on price, resulting in reduced profits because the competitors have	*See PPT 2-22* *Ask students to give local examples of category specialists. How are they similar to specialty stores? Discuss the differences and similarities with discount stores.* *Ask students to describe an experience at a home improvement center such as Home Depot or Lowe's in terms of merchandise, atmosphere, and customer service.*

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difficulty differentiating themselves on other elements of the retail mix. • In response to this increasing competitive intensity, the category killers continue to concentrate on reducing costs by increasing operating efficiency and acquiring smaller chains to gain scale economies, although some category killers, like Home Depot and Lowe's, are attempting to differentiate themselves with service through licensed contractors or providing classes to home owners to give shoppers the confidence to tackle do-it-yourself (DIY) projects.	
D. Specialty Stores • A specialty store concentrates on a limited number of complementary merchandise categories and provides a high level of service in a relatively small store. • • Specialty stores tailor their retail strategy toward very specific market segments by offering deep but narrow assortments and sales associate expertise. • Specialty retailers have such great appeal that they rank among the most profitable and fastest-growing firms in the world. These stores earn an average of $1,675 per square foot, compared to the $200 per square foot averaged by department stores. • Many manufacturers have opened their own specialty stores. Consider, for instance, Levi's (jeans and casual apparel), Godiva (chocolate), Cole Haan (shoes and accessories), Lacoste (apparel), Coach (purses and leather accessories), Tumi (luggage), Wolford (intimate apparel), Lucky Brand (jeans and casual apparel), Samsonite (luggage), and Polo/Ralph Lauren (apparel and home). • Another growing specialty store sector is the resale store. Resale stores are retailers that sell secondhand or used merchandise and include thrift stores or consignment shops. The best-known and most widely expanded thrift shop is Goodwill Industries.	*See PPT 2-23* *Why do customers go to specialty stores? What do they like/dislike about them?* *Manufacturers are also opening their own specialty stores (Levi's, Godiva, Cole Haan, Coach, etc). What are the implications for other retailers like department stores who also sell these brands?*
E. Drugstores	*See PPT 2-24*

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• Drugstores are specialty stores that concentrate on health and beauty care (HBC) products. Many drugstores have steadily increased the space devoted to cosmetics, but prescription pharmaceuticals still represent a substantial and growing portion of drugstore sales. • The largest drugstore chains in the United States are CVS and Walgreens, Boots. • Drugstores are also being squeezed by competition from pharmacies in discount stores and supermarkets, as well as prescription mail-order retailers. • In response, drug store chains are building larger stand-alone stores offering a wider assortment of merchandise, more frequently purchased food items, drive-through windows for picking up prescriptions, in-store medical clinics, and even makeovers and spa treatments. • Although drugstores thus offer major advantages, especially in terms of convenience, they suffer from a price comparison when it comes to their grocery merchandise	*Ask students if they have shopped online for drugstore products. What has been their experience? Do they think the Internet is a viable channel for drugstore merchandise?*
F. Extreme-Value Retailers • Extreme-value retailers, such as Dollar Tree (which purchased the Family Dollar chain) and Dollar General, are small discount stores that offer a broad variety but shallow assortment of household goods, health and beauty care (HBC) products, and groceries.. • By offering limited assortments and operating in low-rent locations, extreme-value retailers can reduce costs and maintain very low prices. • Despite some of these chains' names, few just sell merchandise for $1. Rather, the names imply a good value but do not limit prices to the arbitrary dollar price point. • The growing popularity of extreme-value retailers has led some vendors to agree to create special, smaller packages just for them. • Once considered low-status retailers catering to low-income consumers, extreme-value retailers have broadened their appeal to higher-income consumers by offering exciting bargains and unique merchandise.	*See PPT 2-25 for a summary of issues facing extreme-value retailers.* *Ask students to name the extreme-value retailers in the local marketplace. How many have shopped at one of them? For what types of merchandise? What is the primary appeal of these retailers?*

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G. Off-Price Retailers • Off-price retailers, offer an inconsistent assortment of brand-name merchandise at low prices. • America's largest off-price retail chains are TJX Companies (which operates TJ Maxx, Marshalls, Winners [Canada], HomeGoods, HomeSense [Canada]), Ross Stores, Burlington Coat Factory, Big Lots, and Overstock.com.) • Off-price retailers can sell brand name and even designer-label merchandise at low prices due to their unique buying and merchandising practices. Most merchandise is bought opportunistically from manufacturers or other retailers with excess inventory at the end of the season. • End-of-season merchandise that will not be used in following seasons is called close-outs. The merchandise may be in odd sizes or unpopular colors or styles, or it may be irregulars, merchandise that has minor mistakes in construction. • Typically, merchandise is sold at prices that are20 to 60 percent lower than the manufacturer's suggested retail price. Off-price retailers can buy at low prices because they do not 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. • 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. • An online twist to off-price retailing comes from flash sale sites such as Gilt, Rue La La, and HauteLook.	*Ask students to give examples of local off-price retailers. What do consumers like about off-price retailers? What don't they like?* *See PPT 2-26 for a summary of the issues facing off-price retailers* *Ask students which type of off-price retailer offers consumers truly the best value. Why?*
IV. Service Retailing	*LO 2-4 Explain the differences between service and merchandise*

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• Service retailers, or firms that primarily sell services rather than merchandise, are a large and growing part of the retail industry.	*retailers.* *PPT 2-27*
A. Differences between Service and Merchandise Retailers • Four important differences in the nature of the offerings provided by service 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 several challenges for service retailers. It is difficult for customers to evaluate services before they buy them, or even after they buy and consume them. Service retailers often use tangible symbols to inform customers about the quality of their services. • Service retailers also have difficulty in evaluating the quality of services they are providing. To evaluate the quality of their offering, service retailers place emphasis on soliciting customer evaluations and complaints.	*Ask students how customers can evaluate the quality of an intangible service offering. What problems does intangibility cause for the services retailer?* *Ask students how online reviews and ratings influence their decisions to use service retailers.*
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, may have an opportunity to see it produced, and in some cases, may be part of the production process. • Other customers consuming the service at the same time can affect the quality of the service provided. • Finally, the service 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 service retailers to get it right the first time.	*What problems does simultaneous production cause for the service retailer?*

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• Because services are produced and consumed at the same time, it is difficult to reduce costs through mass production.	
3. Perishability • Because the creation and consumption of services is inseparable, services are perishable. They can't be saved, stored, or resold. This contrasts with merchandise, which can be held in inventory until a customer is ready to buy it. • In addition, the demand for a service varies considerably over time. Thus, service retailers often have times when their services are underutilized and other times when they have to turn customers away because they cannot accommodate them. • Service retailers use a variety of programs to match demand and supply. They also attempt to make customer waiting time more enjoyable.	*Give examples of retailers for which perishability is a real problem. (movie theaters, airlines, cruise lines, public golf courses) What do these retailers do to minimize the problem?* *What actions have students seen service retailers take to make waiting time more enjoyable for customers?*
4. Inconsistency • Merchandise is often produced by machines with very tight quality control. Because services are performed by people, no two services will be identical. • Thus, an important challenge for service retailers is providing consistently high-quality services.	*What problems does inconsistency cause for the service retailer? Are there service retailers whose inconsistency is acceptable? (Custom designers, hair "artists")*
V. 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) franchising.	*LO 2-5 Explain the types of ownership for retail firms.* *See PPT 2-30* .
A. Independent, Single-Store Establishments • Retailing is one of the few sectors in our economy in which entrepreneurial activity is extensive. Many of these retail start-ups are owner managed which means management has direct contact with their customers and can respond quickly to those customers' needs. • While single-store retailers can tailor their offering to their	*Ask students to give examples of local independent, single-store retailers. Do they shop at independents? Why or why not?* *Do students believe national chains will drive all independents*

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customers' needs, corporate chains can more effectively negotiate lower prices for merchandise and advertising due to their larger size. • To better compete against corporate chains, some independent retailers join a wholesale-sponsored voluntary chain. A wholesale-sponsored voluntary cooperative group is an organization operated by a wholesaler offering a merchandising program to small, independent retailers on a voluntary basis.	*out of business?*
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. TBEXAM.COM	*Walmart has pursued a strategy of opening stores on the outskirts of small rural towns with populations between 25,000 and 50,000. These stores offer broader selection of merchandise at much lower prices than previously available from local retailers. Discuss the pros and cons of this strategy in class. What ramifications may result? (Monopolizing market, demise of small stores, potential to become major employer in rural area).*
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 40 percent of all U.S. retail sales are made by franchisees. • In a franchise contract, the franchisee pays a lump sum plus a royalty on all sales for the right to operate a store in a specific location. The franchisee also agrees to operate the outlet as per the procedures prescribed by the franchisor. The franchisor provides assistance in locating and building the store, developing the products and/or services sold, management training, and advertising. • The franchise ownership format attempts to combine the advantages of owner-managed businesses with efficiencies of centralized decision-making in chain store operations.	*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?* *PPT 2-32 provides a brief introduction to the Franchising form of retail ownership.*
VI. Summary • Over the past 30 years, U.S. retail markets have been	

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characterized by the emergence of many new retail institutions. Traditional institutions have been joined by category specialists, hypermarkets and superstores, extreme-value retailers, and nonstore retailers among others.	

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ANSWERS TO SELECTED "GET OUT AND DO IT!" QUESTIONS

2. GO SHOPPING. Go to an athletic footwear specialty store/website such as Foot Locker, a department store, and a discount store. Analyze the variety and assortment of athletic footwear offered by each format by creating a table similar to that in Exhibit 2–2.

Students should be able to fill in this type of table and explain their findings. Example responses are provided for Foot Locker.

	Variety of Athletic Footwear Breath of Merchandise	**Assortment of Athletic Footwear Depth of Merchandise**
Foot Locker	Departments such as Men's, Women's, and Kids Merchandise includes shoes (basketball, running, etc.) and clothing (shorts, hoodies, T-shirts, etc.) New arrivals are featured	Sizes 6 to 18 Many brands offered Nike – over 500 styles Jordan adidas Champion Vans PUMA New Balance Timberland Converse Reebok ASICS
Department store		
Discount Store		

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3. GO SHOPPING Keep a diary for two weeks of where you shop, what you buy, and how much you spend. Ask a family member, roommate, or friend to do the same thing. Tabulate your results by type of retailer. Are your shopping habits significantly different from or are they similar to those of the other person? How do each per-son's shopping habits coincide with the trends discussed in this chapter? Give an example of each.

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Students should keep a list of places shopped. Results can be compared to a parent or another classmate. This assignment should give students insight into their own consumer buying behavior and how they select merchandise and retail formats. Ask students to discuss the managerial implications of their findings. How should retailers with differing target markets communicate with the different audiences based on the differences in buying behaviors?

4. **INTERNET EXERCISE. Three companies, Costco Wholesale Corporation, BJ's Wholesale Club, and Sam's Club, have historically dominated the wholesale club segment. Go online to find the number of locations operated by each company. Use these data to create a pie graph to illustrate the market share for the top warehouse clubs based on the number of store locations. Explain the features and benefits of warehouse retail clubs for consumers.**

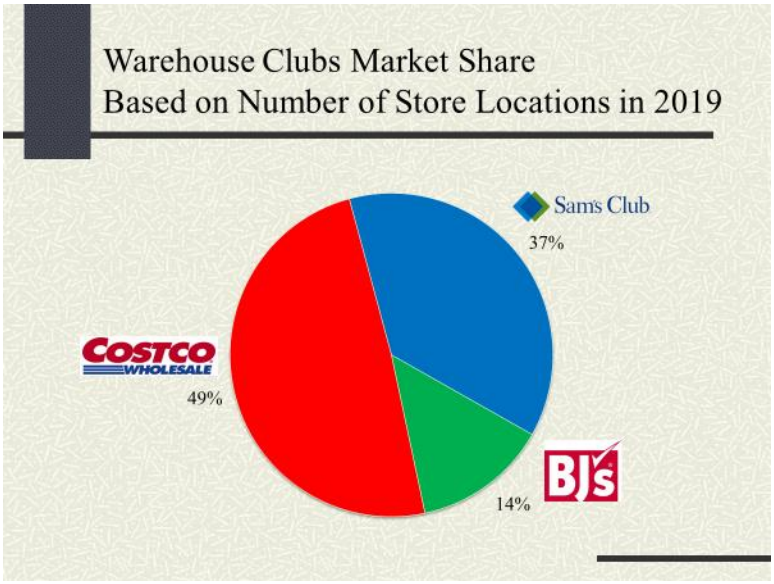
Companies in this industry operate membership (annual fee) retail stores that sell items in a larger size or bulk quantity.

Members are consumers and small businesses.

This retail format offers its members low prices on a limited selection of nationally branded and private-label products in a wide range of merchandise categories (e.g., groceries, hardware, household).

Retailer Name	2019 Number of Locations
Costco Wholesale Corporation	787
BJ's Wholesale Club	216
Sam's Club	599

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Source:

5. **INTERNET EXERCISE Data on U.S. retail sales are available at the U.S. Bureau of the Census Internet site at www.census.gov/retail. Look at the unadjusted Retail and Food services monthly**

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sales by NAICS (found in the Monthly Retail Trade Report section). Which categories of retailers have the largest percentage of sales in November and December (the holiday season)? Do your findings make sense to you? Why or why not?

Students will notice that many retail categories generate their largest percentage of sales in the fourth quarter. Some are:

- (443) Electronics and Appliance Stores
- (44312) Computer and Software Stores
- (4453) Beer, Wine and Liquor Stores
- (44812) Women's Clothing Stores
- (45111) Sporting Goods Stores
- (454) Nonstore Retailers

The higher level of sales in the last quarter of the year are likely due to holiday sales. Do these categories make sense to students? Are there other categories in which students would expect to see similar sales?

6. **INTERNET EXERCISE Three large associations of retailers are the National Retail Federation (www.nrf.com), the Food Industry Association (www.fmi.org), and the National Association of Convenience and Petroleum Stores (www.convenience.org). Visit these sites and report on one recent retail development and issue confronting the industry from each association.**

Information on these sites will change daily. The National Retail Federation will likely have information on trends in retailing like how influencers support brand marketing . Similarly, the NRF will report on health and legal issues that impact retailing, such as the coronavirus retail restrictions by state. The Food Industry Association will provide information on trends in food retailing and manufacturing as well as legal and economic concerns. For example, the FIA may report on information about changes in regulations regarding the definition of "organic." The NACS will report on regulations as well, such as debit card swipe fees, as well as information on oil prices and petroleum.

7. **INTERNET EXERCISE Go to Entrepreneur franchise zone web page at www.entrepreneur.com/franchise500 and view the top 500 franchises for the current year. How many of the retailers in the top 10 have you patronized as a customer? Did you know that these retailers were operated as a franchise? If yes, how did you learn this information? If no, what type of ownership did you think was in place? Review the five-pillar system used to evaluate the Franchise 500. Explain which factors are most important for long-term success. Finally, what is the nature of the businesses that work well through franchising?**

The Top 10 Franchises for 2021 include many familiar names.

Taco Bell	Popeyes Louisiana Kitchen
Dunkin'	Culver's
The UPS Store	Kumon Math & Reading Centers

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Jersey Mike's Subs	7-Eleven Inc.
Planet Fitness	Servpro

The website notes that the list of the Top 500 franchises is based on five quantifiable measures.

1. Costs and fees, including the franchise fee, total investment, and royalty fees.

2. Size and growth. This measure counts open and operating units, growth rate, and closures.

3. Support. This pillar takes into consideration training times, marketing support, operational support, franchisor infrastructure, financing availability, and litigation.

4. Brand strength. This aspect refers to social media, system size, years in business, and years franchising.

5. Financial strength and stability, which considers the franchisor's audited financial statements.

Students will likely notice that service-based retailers tend to lend themselves best to the franchise system, particularly those services that allow for standardization of business practices and retail operating formats.

8. INTERNET EXERCISE Best Buy is a category specialist with more than 1,000 stores and approximately 125,000 employees in the United States, Canada, and Mexico.. It sells appliances (refrigerators, washers and dryers, small household appliances) and electronics (televisions, computers, cell phones, car electronics, wearable technology). What are the SIC and NAICS codes used by this retailer? What other retailers compete against Best Buy, and which store format is implemented by each competitor?

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PRIMARY SIC AND NAICS CODES

Primary Industry	Consumer Electronics & Appliances Stores
Primary SIC Code	57310000: Radio, television, and electronic stores
Primary NAICS Code	443142: Electronics Stores

ASSOCIATED NAICS CODES

443141	Household Appliance Stores
443142	Electronics Stores

ASSOCIATED SIC CODES

5722	Household appliance stores
5731	Radio, TV, & electronic stores
5734	Computer and software stores
5946	Camera & photographic supply stores

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Top Best Buy Competitors

Company	Format
Best Buy	Category Killer
Wal-Mart	Discount Store
Apple Inc.	Specialty
Amazon.com	Electronic Retailer

Other Best Buy Competitors

Company	Format
Costco	Warehouse Club
Target	Discount Store
Sony	Specialty
Dell	Specialty

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ANSWERS TO DISCUSSION QUESTIONS AND PROBLEMS

1. **Distinguish between variety and assortment. Why are these important elements of retail market structure?**

The main difference between variety and assortment is that variety refers to the number of different merchandise categories a retailer sells, whereas assortment is the number of different items or SKUs in a merchandise category. In addition, variety is often referred to as the breadth of merchandise carried by the retailer, and assortment is referred to as the depth of merchandise. These elements form an integral part of the retail market structure, because it is the retail offering that ultimately distinguishes one retailer from another.

2. **What sorts of competitive pressures are confronting traditional grocery stores? What options do these stores have to ease these pressures?**

Supermarkets are under competitive pressures from supercenters, warehouse clubs, extreme-value retailers, convenience stores, and even drug stores. These retailers have increased the amount of space that they provide for consumables. In addition, these competing retailers offer food merchandise to build the traffic in their stores and increase the sales of more profitable nonfood merchandise. To compete against these stores, supermarkets are offering more fresh merchandise, green merchandise, ethnic merchandise, and private-label merchandise. In addition, supermarkets are working on ways to enhance the store ambience and customer service to provide a more enjoyable shopping experience.

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

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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, because their merchandise is based upon opportunistic buying, while discount stores offer a relatively stable mix of merchandise at stable prices (everyday low pricing).

The option of improving service may increase costs and weaken their only source of competitive advantage, so low price or 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 Walmart, 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 (e.g., eBay). Off-price retailers can explore the possibility of using the Internet for relatively low-cost advertising about current merchandise (because their merchandise stocks fluctuate more rapidly due to opportunistic buying). Factory outlet stores instead can compete more directly over the Internet.

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

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Element of Retail Mix	Convenience Store	Traditional Supermarket	Superstore	Warehouse Store
Location	Typically freestanding, easily accessible sites	Typically in strip shopping centers	Typically in strip shopping centers	Typically in strip shopping centers
Merchandise assortment	Limited variety and assortment	Average variety and assortment	Greater variety with deeper assortment than supermarket	Greater variety with about the same assortment as supermarket. Primary difference is that merchandise assortment varies because of opportunistic buying.
Pricing	Higher pricing than supermarkets	Average pricing. Some chains have constant (every day) pricing and others have special sale (high-low) pricing.	Lower pricing than supermarkets. Typical everyday pricing.	Lower pricing than supermarkets. Pricing depends on cost of merchandise bought on special buys.
Advertising and promotion Personal selling	Limited advertising, frequent shopper programs tied to gasoline sales. Minimal	High-low pricing chains advertise weekly specials. Minimal	Limited advertising since most have everyday pricing. Minimal	Minimal promotion since all merchandise is basically on sale. Minimal
Store design and display	Designed for quick and easy merchandise selection and checkout	Typically use a grid-iron with cross-hatch aisles, extensive signs.	Same as supermarket.	Same as supermarket. A bit more disorganized to give the customers the feel of searching for a bargain.
Service	Minimal	Some services for produce, bakery, meat, and fish categories.	Some services for produce, bakery, meat, and fish areas.	Minimal

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All four types will persist because they appeal to different customer needs. The warehouse stores typically have larger pack sizes that are extremely attractive to customers with large families and to

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small business owners like local restaurants. However, due to the varying assortments, customers who are brand loyal might not want to shop in these stores.

Convenience stores are located and designed to offer customers a snack, quick meal, or minimal grocery/general merchandise purchase along with their gasoline. These retailers offer easy in-and-out access and speedy transactions. In response to competitive pressures from other food retailers, as well as dependency on gasoline sales, many convenience stores are now offering consumers fresh food and healthy fast-food choices to reduce dependency on fuel sales while maintaining on-the-go ease and convenience.

Superstores offer low prices but are more inconvenient to shop in because of their 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 necessities, such as toilet paper, soft drinks, and canned goods at a warehouse or superstore, then go to a supermarket to buy meat, produce, and gourmet food.

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5. Review EXHIBIT 2-5, Category Specialists, pick a retailer from the list, and summarize the merchandise offered, pricing strategy, level of service, type of location, and communication mix.

Here is a helpful article for this question, "Meatballs and DIY Bookcases: The Psychology Behind IKEA's Iconic Success," CNBC, https://www.cnbc.com/2019/10/05/psychology-behind-ikeas-huge-success.html

Example for IKEA

Merchandise offered – Furniture, pillows, and other home goods are staged in mock rooms, Scandinavian aesthetic, and food.

Pricing strategy – Inexpensive, affordable, EDLP

Level of service – Do-it-yourself assembly

Location - 433 IKEA stores in 53 countries, large format, standalone

Communication mix – Store, website, print, online, mobile, social, TV, etc.

6. Why are retailers in the limited-assortment supermarket and extreme-value discount store sectors growing so rapidly? From which retailers do these firms capture additional sales?

Both limited-assortment supermarkets and extreme-value discount stores focus on relatively limited merchandise offerings at highly appealing (low!) prices. The retail formats are able to offer their extremely low prices through maximizing efficiency. By reducing extras and service offerings, as well as

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managing a relatively low merchandise assortment, these retailers are able to provide consumers with the “thrill of the hunt” for amazing deals. Extreme-value retailers are attracting customers away from supermarkets and supercenters.

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

Each type of retail store provides a unique combination of price and services tailored to the needs of different types of customers. The specialty store typically will have higher prices but will offer more services. It will have salespeople with specific expertise available to provide information to customers and answer questions. This service is particularly valuable to customers who do not know much about coffee makers.

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. Customers can also buy merchandise in different product categories at the same time they are buying a coffee maker.

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

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

Students may emphasize specialty stores such as H&M, Old Navy, or Best Buy for their purchases of clothing or electronic equipment, while mentioning that their parents favor traditional department stores such as Macy's or Dillard’s for the purchase of such product categories. If price is a major factor, there may be some similarities between the students and their parents; both may shop at discount stores.

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

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

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Optical stores present an interesting mix of service and related merchandise. On the 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 like 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 toward 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. If 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 benefits/costs of using glasses or contact lenses, the types of lenses and coatings, proper care of glasses and contact lenses, and so on.

It must also be recognized that most customers who are prescribed glasses for the first time are likely to continue wearing glasses or contact lenses for the rest of their lives. Thus, it is important to start building consumer trust and confidence through professional service and expertise. One strategy would be to encourage customers to return for an eye examination every year and have their current prescription for the glasses or lenses checked. Another is to provide free repair service for the frames.

10. There are services and products involved when buying or renting a car, and in both cases, the customer drives away in a car. But buying a car focuses more on the product, whereas renting involves the service. Explain four ways in which marketing for a rental car company differs from marketing for an automobile dealership.

The differences in offerings provided by service retailers include (1) intangibility, (2) simultaneous production and consumption, (3) perishability, and (4) inconsistency of the offering to customers. Although the automobile at the rental car company is tangible, the experience of renting is an intangible offering. The services surrounding the accessibility of the car rental are what is most important to the customer. Similarly, the service is consumed at the same time it is being produced. This differs from the experience of purchasing a car. The rental car service is also perishable. If a day goes by and a car is not rented, the revenue from renting the car for that day is gone forever, making the rental car service perishable. Finally, the experience with the rental car company may be inconsistent. As personalities and training programs might differ by location, the experience the consumer has with a rental car provider at different locations may vary significantly.

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ANCILLARY LECTURE

LECTURE # 2-1: FRANCHISING

Instructor's Note: Franchising is one of the most popular and successful ways for individuals to start their own business. The growth in franchising as a retail format will probably continue in the near future. Many students who take a retailing course have intentions of someday starting their own business and this lecture may provide them with an interesting possibility to consider. Instructors might want to use this lecture as a stimulus to a class discussion on the topic. PowerPoint slides 2-59 to 2-67 can be used with this lecture.

Introduction

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

In 2016, sales of goods and services by all franchising companies exceeded $890 billion, approximately 50 percent of all U.S. retail sales.

There are over 780,000 franchise businesses that directly employ over 8.8 million people.

The growth of franchising

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

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

Technological advances

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

For example: Electronic Data Interchange

Profitable utilization of capital resources

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

Attainment of the American dream

Owning your own business.

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Demographic expansion

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

No longer just downtown locations.

Product/service consistency

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

For example: A Big Mac tastes the same everywhere.

Types of franchise systems

There are various types of franchise systems including

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

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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: McDonald's and Burger King Regional franchises.

Operating franchise

The individual independent franchisee that runs his own franchise.

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

For example: McDonald's and Burger King individual locations.

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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 and Chem-Dry Carpet Cleaning.

Distributorship

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

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

For example: Texaco gasoline supply centers.

Co-ownership

The franchisor and franchisee share the investment and profits.

For Example: Denny's Restaurant.

Co-management

The franchisor controls the major part of the investment.

The partner-manager shares profits proportionately.

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For example: Travelodge and Holiday Inn.

Leasing/Licensing

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

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

For example: Sheraton Hotels.

Manufacturing

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

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

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

For example: Sealy.

Service

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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.

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Market saturation

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

Franchisors and the marketing channel

A franchisor may occupy any position in the marketing channel.

Manufacturer-retailer franchise

Automobile dealers and service stations.

Manufacturer-wholesaler franchise

Coca-Cola, Pepsi, Seven-Up, etc. sell syrup they manufacture to franchised wholesalers who bottle and distribute to retailers.

Wholesalers-retailer franchise

Rexall Drugs and Sentry Drugs.

Service Sponsor--Retailer franchise

Avis, Hertz, and National, McDonald's, Chicken Delight, KFC, Howard Johnson's and Holiday Inn, Midas and AMCO, Kelly Girl and Manpower

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Franchisor benefits

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

Continuous market

Insured through consistent quantity and quality and strong promotion.

Market information

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

Money

Principal sources of franchise company revenue.

Royalty fees

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

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

Sales of products

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

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

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Rental and lease fees

The franchisor may lease buildings, equipment, and fixtures.

License fees

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

Management fees

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

Franchisee benefits

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

Initial services

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

1. Market survey and site selection,
2. Facility design and layout,
3. Lease negotiation advice,

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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.

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Franchisor advantages/disadvantages

Depending upon which viewpoint one takes (the franchisor or franchisee) there are many advantages and disadvantages of franchising.

From the perspective of the franchisor, the advantages include

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

The disadvantages include

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

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Franchisee advantages/disadvantages

From the viewpoint of the franchisee the advantages include

4. Established/proven product/service,
5. Business and technical assistance, and
6. Reduction in risk.

The disadvantages include

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

Franchising trends

Most of the growth of franchising has occurred 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.

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Examples include brands like Ford, Honda, and Texaco.

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

The emphasis here is on how the business is run.

Examples include KFC, McDonald's and Burger King.

The major franchising trends are

10. Sustained growth,
11. Enduring plus unimagined applications,
12. International expansion,
13. Increased tensions, and
14. Greater emphasis on financial returns.

Sustained Growth

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It is perceived that franchising will continue to grow steadily.

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

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

Enduring plus unimagined applications

Today, such things like travel planning, pet-sitting services, and house calls by doctors may be owned by franchises.

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

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

International expansion

Franchisors are currently exploring foreign markets.

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

However, non-U.S. franchisors have had a more difficult time in the U. S. due to stiff competition.

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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.

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

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CONNECT ACTIVITIES

Activity Title	Activity Type(s)	Topic	Learning Objective(s)
Types of Retailers	Drag and Drop; Matching (accessible version)	Categories of food and general merchandise retailers	2-3 Identify the various types of general merchandise retailers.
Types of Ownership	Matching	Types of ownership for retail firms	2-5 Illustrate the types of ownership for retail firms.
Services Retailing versus Merchandise Retailing	Matching	Retailing	2-4 Explain the differences between service and merchandise retailers.
Retailer Characteristics	Matching	Characteristics of different types of retailers	2-1 List the different characteristics that define retailers.
Types of Food Retailers	Matching	Categories of food retailers	2-2 Categorize the various types of food retailers.

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