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RETAILING MANAGEMENT

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RETAILING MANAGEMENT

NINTH EDITION

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RETAILING MANAGEMENT, NINTH EDITION

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*To our families for their never-ending support. To my wife Marcia
and my daughter Eva. —Michael Levy*

To my wife Shirley. —Bart Weitz

*To my wife Diana and my children Lauren and Alex.
—Dhruv Grewal*

ABOUT THE AUTHORS



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Michael Levy, Ph.D. (Ohio State University), is the Charles Clarke Reynolds Professor of Marketing and Director of the Retail Supply Chain Institute at Babson College. He received his Ph.D. in business administration from The Ohio State University and his undergraduate and MS degrees in business administration from the University of Colorado at Boulder. He taught at Southern Methodist University before joining the faculty as professor and chair of the marketing department at the University of Miami.

Professor Levy received an award for 25 years of dedicated service to the editorial review board of the *Journal of Retailing* in 2011. He has also received the McGraw-Hill Corporate Achievement Award for Grewal/Levy *Marketing*, second edition, with Connect in the category of Excellence in Content and Analytics (2010); Revision of the Year for *Marketing*, second edition (Grewal/Levy) from McGraw-Hill Irwin (2010); the Babson Faculty Scholarship Award (2009); and the Distinguished Service Award, *Journal of Retailing* (2009) (at Winter AMA). He was rated as one of the best researchers in marketing, in a survey published in *Marketing Educator* (summer 1997).

He has developed a strong stream of research in retailing, business logistics, financial retailing strategy, pricing, and sales management. He has published more than 50 articles in leading marketing and logistics journals, including the *Journal of Retailing*, *Journal of Marketing*, *Journal of the Academy of Marketing Science*, and *Journal of Marketing Research*. He currently serves on the editorial review board of the *International Journal of Logistics Management*, *European Business Review*, and the advisory boards of *International Retailing and Marketing Review* and the *European Retail Research*. He is coauthor of *Marketing*, fourth edition (2014) and *M-Marketing*, third edition (2013), both with McGraw-Hill/Irwin. Professor Levy was co-editor of *Journal of Retailing* from 2001 to 2007. He co-chaired the 1993 Academy of Marketing Science conference and the 2006 summer AMA conference.

Professor Levy has worked in retailing and related disciplines throughout his professional life. Prior to his academic career, he worked for several retailers and a housewares distributor in Colorado. He has performed research projects with many retailers and retail technology firms, including Accenture, Federated Department Stores, Khimetrics (SAP), Mervyn's, Neiman Marcus, ProfitLogic (Oracle), Zale Corporation, and numerous law firms.



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Barton A. Weitz, Ph.D., received an undergraduate degree in electrical engineering from MIT and an MBA and a Ph.D. in business administration from Stanford University. He has been a member of the faculty at the UCLA Graduate School of Business and the Wharton School at the University of Pennsylvania and is presently the JCPenney Emeritus Eminent Scholar Chair in Retail Management in the Warrington College of Business Administration at the University of Florida.

Professor Weitz is the founder of the David F. Miller Center for Retailing Education and Research at the University of Florida (www.cba.ufl.edu/mkt/retailcenter). The activities of the center are supported by contributions from 35 retailers and firms supporting the retail industry, including JCPenney, Macy's, Walmart, Office Depot, Walgreens, Home Depot, Target, and Brown Shoe, and the International Council of Shopping Centers. Each year, the center places more than 250 undergraduates in paid summer internships and management trainee positions with retail firms and funds research on retailing issues and problems.

Professor Weitz has won awards for teaching excellence and made numerous presentations to industry and academic groups. He has published more than 50 articles in leading academic journals on channel relationships, electronic retailing, store design, salesperson effectiveness, and sales force and human resource management. His research has been recognized with two Louis Stern Awards for his contributions to channel management research and a Paul Root Award for the *Journal of Marketing* article that makes the greatest contribution to marketing practice. He serves on the editorial review boards of the *Journal of Retailing*, *Journal of Marketing*, *International Journal of Research in Marketing*, and *Journal of Marketing Research*. He is a former editor of the *Journal of Marketing Research*.

Professor Weitz has been the chair of the American Marketing Association and a member of the board of directors of the National Retail Federation, the National Retail Foundation, and the American Marketing Association. In 1989, he was honored as the AMA/Irwin Distinguished Educator in recognition of his contributions to the marketing discipline. He was selected by the National Retail Federation as Retail Educator of the Year in 2005 and been recognized for lifetime achievements by American Marketing Association Retailing, Sales, and Inter-Organizational Special Interests Groups.

Dhruv Grewal, Ph.D. (Virginia Tech) is the Toyota Chair in Commerce & Electronic Business, Professor of Marketing, and Co-Director of the Retail Supply Chain Institute at Babson College. His research and teaching interests focus on retailing, pricing, services, global marketing, e-commerce, and value-based marketing strategies. He has published more than 115 articles in journals such as *Journal of Marketing*, *Journal of Consumer Research*, *Journal of Marketing Research*, *Journal of Retailing*, and *Journal of the Academy of Marketing Science*, among others. He has been awarded the 2013 Distinguished Graduate Alumnus Award (Virginia Tech), the 2012 Lifetime Achievement Award in Pricing (AMA Retailing & Pricing SIG), the 2010 Lifetime Achievement Award in Retailing (AMA Retailing SIG), the 2005 Lifetime Achievement in Behavioral Pricing Award, and the Academy of Marketing Science Cutco/Vector Distinguished Educator Award in May 2010. He is a Distinguished Fellow of the Academy of Marketing Science.

Professor Grewal was co-editor of *Journal of Retailing* from 2001 to 2007. He has also coauthored *Marketing Research*, (Houghton) and *Marketing and M Series: Marketing*, (McGraw-Hill). He has won a number of awards for his teaching: 2005 Sherwin-Williams Distinguished Teaching Award, Society for Marketing Advances; 2003 American Marketing Association, Award for Innovative Excellence in Marketing Education; 1999 Academy of Marketing Science Great Teachers in Marketing Award; 1998 Executive MBA Teaching Excellence Award; 1993 and 1999 School of Business Teaching Excellence Awards; and the 1989 Virginia Tech Certificate of Recognition for Outstanding Teaching. He has won a number of awards for his research: the 2010 and 2012 William R. Davidson JR Best Paper Award; the 2011 Luis W. Stern Award; the 2010 and 2011 William R. Davidson Jr Honorable Mention Award; the 2010 Babson College Faculty Scholarship Award; the University of Miami School of Business Research Excellence Award for years 1991, 1995, 1996, and 1998; and the 2002 Service SIG Best Services Paper Award. He also received a Best Reviewer Award (*Journal of Retailing*, 2008) and a Distinguished Service Award (*Journal of Retailing*, 2009).

He has taught executive seminars/courses and/or worked on research projects with numerous firms, such as Dell, ExxonMobil, IRI, TJX, Radio Shack, Telcordia, Khimetrics, Profit-Logic, Monsanto, McKinsey, Ericsson, Met-Life, AT&T, Motorola, Nextel, FP&L, Lucent, Sabre, Goodyear Tire & Rubber Company, Sherwin Williams, Esso International, Asahi, and numerous law firms. He has taught seminars in the United States, Europe, and Asia.



Dhruv Grewal, Ph.D.

PREFACE

Our primary objective in the ninth edition of *Retailing Management* is to inform students about the exciting new developments in the retail industry. Retailing has evolved into a high-tech, global growth industry. Retailers like Walmart, Home Depot, Amazon, Starbucks, and Kroger are some of the most admired and sophisticated businesses in the world. The developments in the industry are providing challenging and rewarding opportunities for students interested in retailing careers and companies supporting the retail industry such as IBM, Procter & Gamble, and Google.

We are pleased to announce the addition of Professor Dhruv Grewal, The Toyota Chair of Commerce and Electronic Business and Professor of Marketing at Babson College, to the *Retailing Management* author team. Dhruv brings years of academic experience to the project, as evidenced by dozens of retailing-related articles that he has coauthored. He also co-edited the *Journal of Retailing* from 2001 to 2007 with Michael Levy, a close colleague and collaborator for more than 20 years.

ABOUT THE COVER

The cover of this textbook illustrates just one example of how retailers are utilizing technological innovation to provide consumers with a rewarding shopping experience. Homeplus, owned by UK-based supermarket giant, Tesco, is utilizing “virtual” stores at South Korean bus stops and underground subways. Shoppers order products to be delivered to their homes by scanning QR codes using their smartphones.

NEW FEATURES IN THE NINTH EDITION OF *RETAILING MANAGEMENT*

In preparing this edition, we focused on five important developments: (1) the use of big data and analytical methods for decision making, (2) the application of social media and smartphones for communicating with customers and enhancing their shopping experience, (3) the issues involved in utilizing a mobile channel and providing a seamless multichannel experience for customers, (4) the engagement in corporate social responsibility activities, that is, the consideration of society when making business decisions; and (5) the impact of globalization on the retail industry.

Big Data and the Use of Analytical Methods in Retailing *Big data* refers to the collection and analysis of data sets so large and complex that they cannot be handled using traditional data-processing techniques. Retailers are at the forefront of the big data phenomenon. For example, Walmart processes more than 100 million transactions per hour through its point-of-sale terminals in stores around the world. Its customer database contains more than 2.5 petabytes of data, which is equal to nearly 170 times the data in all of the books in the Library of Congress. In Chapter 11 (Customer Relationship Management) of the ninth edition, we extend the discussion of how retailers use frequent-shopper programs to collect customer data by including a new section on the analysis of big data to improve decision making. Some examples of the use of analytical methods discussed in the new edition are:

- Improving store design and promotion planning using market basket analysis (Chapters 11, 15, and 17).
- Two approaches for SKU rationalization (Chapters 11, 12).
- Optimizing the timing and depth of markdown decisions (Chapter 14).
- Targeting promotions to increase effectiveness (Chapters 11, 15).
- Dynamic pricing (Chapter 14).

- Determining where merchandise categories should be placed in a store and on a website (Chapter 17).
- Scheduling store employees to make sure there is an appropriate number of sales associates at different times of the day and days in the week (Chapter 15).

We have also added a number of new illustrations (Retailing Views) of how retailers such as CVS and Kroger are using these retail analytics to gain a competitive advantage. The executive profile for Chapter 11 outlines how an entrepreneur built a successful consulting business by developing and implementing the use of retail analytics on big data.

Social Media Over the past five years, there has been an explosion in the use of social media. Facebook, Twitter, Pinterest, and Instagram are now part of everyone's vocabulary. The revision to Chapter 15 (Retail Communications) focuses on how retailers are using social media to provide more information about their offerings and to build relationships with their customers. Examples of other applications of social media, illustrated with an icon in the margin, that are new in this edition are:

- The impact of social media and a multichannel offering on the consumer buying process (Chapters 3, 4).
- Discussion on how to build a retail community using social media (Chapter 5).
- Executive briefing on a young social media manager working for a fashion apparel retail chain discussing how she develops relationships with fashion bloggers (Chapter 15).
- The use of social media in developing an integrated marketing communication program (Chapter 15).
- Illustrations of how REI (Chapter 15), Build-A-Bear (Chapter 3), and American Girl (Chapter 11) use social media to build a sense of community and loyalty among their customers.
- New Retailing View highlighting the social media elements of "Pinning" and "Likes" (Chapter 4).

Mobile Channel as Part of a Multichannel Offering Our textbook has always included a cutting-edge treatment of the role of the Internet in retailing. Most retailers are now multichannel because they have added an Internet channel to their store and/or catalog offering. In the past, we have had a chapter that specifically discussed the opportunities and issues facing multichannel retailers. In this edition, we have expanded our discussion of the mobile channel in Chapter 3 and throughout the textbook. For example, we have:

- Reviewed the benefits and limitations of the mobile channel compared with other channels (Chapter 3).
- Outlined the impact of mobile on shopping behaviors such as showrooming and how retailers are dealing with the increased ease of getting price information (Chapters 3, 14).
- Discussed the role of the mobile channel in providing a seamless, omnichannel interface for customers (Chapter 3).
- Described the use of mobile channels in delivering coupons and in-store promotions (Chapter 15).
- Added a new Retailing View on Staples' mobile strategy and how it reaches out to its customers through their smartphones (Chapter 15).

Social Responsibility of Retailers The retail industry has a major impact on important social issues such as global warming, immigration, health care, and working conditions in less-developed economies. Our illustrations of the role retailers play in addressing social welfare issues are highlighted with legal/ethical icons in the margins. Some new examples examined in this edition are:

- New Retailing View on Walmart's greener supply chain (Chapter 10).
- Consumer interest in green and local products (Chapter 4).

- New Retailing View of buying green on an Amazon-owned site—Vine.com (Chapter 10).
- New Retailing View on Amazon’s price check apps and showrooming.
- Expanded discussion of privacy issues arising from collecting customer data (Chapter 11).
- Ethical issues in sourcing merchandise globally (Chapter 13).
- New Retailing View on how Grupo Elektra is improving the lifestyle of Latin America’s working poor (Chapter 1).
- New Retailing View on TOMS Shoes’ social objectives (Chapter 6).
- Sustainability issues in store operations (Chapter 16) and design (Chapter 17).
- Role of retailing in advancing the welfare of people at the bottom of the pyramid (Chapter 1).

Globalization of the Retail Industry Retailing is a global industry. With a greater emphasis being placed on private-label merchandise, retailers are working with manufacturers throughout the world to acquire merchandise. In addition, retailers are increasingly looking to international markets for growth opportunities. For instance, Carrefour, France’s hypermarket chain and the second-largest retailer in the world, is focusing its growth investments in 25 countries—but not in France where its headquarters are located. Some examples of the global retailing issues, identified with icons in the margins, examined in this edition are:

- New Retailing View on wet markets in Shanghai (Chapter 1).
- New Retailing View discussing how China has developed a special relationship with its high-end fashion consumers (Chapter 7).
- New Executive Briefing describes how the CEO of Outback Steakhouse International deals with international expansion (Chapter 5).
- New Retailing View of 7-Eleven in Indonesia (Chapter 5).
- Retail efficiencies in different economies (Chapter 1).
- Two Executive Briefings from senior managers in retail companies headquartered outside the United States (Chapters 2, 17).
- Five of the new cases at the end of the text are based on retailers operating outside of the United States.

Improvements in Pedagogy We have made some changes in the format of the textbook to facilitate students’ learning experience. First, in each chapter, we have identified four to six Learning Objectives and organized the chapter around these objectives. Each chapter has three to six Retailing Views that describe how a retailer deals with the issues raised in the chapter. We have added a discussion question to each of these Retailing Views to motivate students to develop a better understanding of the application of the concepts presented in the text. More than 50 percent of the Retailing Views are new, and the rest have been updated. Some examples of the Retailing Views in the ninth edition are:

- Avon’s direct selling channel in Brazil (Chapter 3).
- Gender issues in consumer behavior (Chapter 4).
- Private-equity firms investing in retailers (Chapter 6).
- Stage Stores’ big payoff from locating in small towns (Chapter 8).
- Macy’s use of employment branding to attract talent (Chapter 9).
- Costco’s mastery of assortment planning (Chapter 12).
- IKEA’s unique store design (Chapter 17).
- Zappos’ excellent customer service through speaking with one voice (Chapter 18).

Eleven New Cases There are 11 brand new cases in the ninth edition, including Blue Tomato: Internationalization of a Multichannel Retailer (Austria); Staples

Inc.; Parisian Patisserie “Maison Ladurée”: The Conquest of the U.S. Market (France); Starbucks’ Expansion into China; Walmart: Pioneer in Supply Chain Management; Tiffany & Co. and TJX: Comparing Financial Performance; Sephora Loyalty Programs: A Comparison between France and the United States; Mel’s Department Store under New Management; Kroger and Fred Meyer: Sourcing Products in a Global Marketplace; Target and Its New Generation of Partnerships; and Zipcar: Delivering Only as Much Driving as You Want. Five of these cases are about global issues. All 38 cases in the textbook are either new or updated with current information.

Eighteen New Videos There are 18 new videos, many of which are coordinated with discussion questions on Connect Marketing for *Retailing Management*. The new videos are Panera Bread’s Commitment to Excellence; Zappos.com; Working for the Best: The Container Store; Walmart’s Public Image Campaign; McDonald’s Taps Ethnic Subcultures for Ongoing Growth; Bass Pro Shops: Maximizing the In-Store Experience; Inside One of Amazon’s Busiest Days; Customer Service at Ritz Carlton and Apple; Future of Retail; The Mobile Factor [The Connected Consumer]; Tesco Virtual Stores in Korea; RFID Network Retail; Starbucks Human Resource Management; and Lord & Taylor Shoe Department.

BASIC PHILOSOPHY

The ninth edition of *Retailing Management* builds on the basic philosophy reflected in the previous eight editions. We continue to focus on key strategic issues with an emphasis on financial considerations and implementation through merchandise and store management. These strategic and more tactical issues are examined for a broad spectrum of retailers, both large and small, domestic and international, selling merchandise and services.

Strategic Focus The entire textbook is organized around a model of strategic decision making outlined in Exhibit 1–6 in Chapter 1. Each section and chapter relates back to this overarching strategic framework. In addition, the second section of the book focuses exclusively on critical strategic decisions, such as selecting target markets, developing a sustainable competitive advantage, building an organizational structure and information and distribution systems to support the strategic direction, building customer loyalty, and managing customer relationships. The text explores in depth the resources that retailers use to develop sustainable competitive advantage, such as

- Selecting store location (Chapters 7, 8).
- Developing and maintaining human resources (Chapter 9).
- Managing information systems and supply chains (Chapter 10).
- Managing customer relationship management, and collecting and analyzing big data to make better decisions (Chapter 11).
- Developing unique private-label merchandise (Chapter 13).
- Providing outstanding customer service (Chapter 18).

Financial Analysis The success of any retailer, like any other business, depends on its ability to make a profit, provide an adequate return to its owners, and be financially stable. The financial problems experienced by some well-known retail firms—like Circuit City, Sharper Image, and K-B Toys—highlight the need for a thorough understanding of the financial implications of strategic retail decisions. Financial analysis is emphasized in selected chapters, such as Chapter 6 on the overall strategy of the firm using the strategic profit model and the financial strength of retailers using cash flow and ratio analysis, Chapter 11 on the evaluation of customer lifetime value, and Chapter 12 on retail buying systems. Financial issues are also raised in the sections on negotiating leases, bargaining with suppliers, pricing merchandise, developing a communication budget, and compensating salespeople.

Implementing a Retail Strategy Although developing a retail strategy is critical to long-term financial performance, the execution of strategies is as important as the development of the strategy. Traditionally, retailers have exalted the merchant prince—the buyer who knew what the hot trends were going to be. While we provide a thorough review of merchandise management issues, the emphasis in retailing is shifting from merchandise management to the block-and-tackle activities of getting merchandise to the stores and customers and providing excellent customer service and an exciting shopping experience. Due to this shift toward store management, most students embarking on retail careers go into distribution and store management rather than merchandise buying. Thus, this text devotes an entire chapter to information systems and supply chain management and an entire section to store management.

Up-to-Date Information Retailing is a very dynamic industry, with new ideas and formats developing and traditional retailers constantly adapting to the changing environment or suffering financially. Most of the examples provided in the text have taken place in the last two years.

Balanced Approach The ninth edition continues to offer a balanced approach for teaching an introductory retailing course by including descriptive, how-to, and conceptual information in a highly readable format.

Descriptive Information Students can learn about the vocabulary and practice of retailing from the descriptive information throughout the text. Examples of this material are:

- Leading U.S. and international retailers (Chapter 1).
- Management decisions made by retailers (Chapter 1).
- Types of store-based and nonstore retailers (Chapters 2 and 3).
- Approaches for entering international markets (Chapter 5).
- Location options (Chapter 7).
- Lease terms (Chapter 8).
- Organization structure of typical retailers (Chapter 9).
- Flow of information and merchandise (Chapter 10).
- Branding strategies (Chapter 13).
- Methods for communicating with customers (Chapter 15).
- Store layout options and merchandise display techniques (Chapter 17).
- Career opportunities (Appendix 1A to Chapter 1).

How-to Information *Retailing Management* goes beyond this descriptive information to illustrate how and why retailers, large and small, make decisions. Procedures with examples are provided for making the following decisions:

- Managing a multichannel operation (Chapter 3).
- Scanning the environment and developing a retail strategy (Chapter 5).
- Analyzing the financial implications of retail strategy (Chapter 6).
- Evaluating location decisions (Chapter 8).
- Developing a merchandise assortment and budget plan (Chapter 12).
- Negotiating with vendors (Chapter 13).
- Pricing merchandise (Chapter 14).
- Recruiting, selecting, training, evaluating, and compensating sales associates (Chapter 16).
- Designing the layout for a store (Chapter 17).
- Providing superior customer service (Chapter 18).

Conceptual Information *Retailing Management* also includes conceptual information that enables students to understand why decisions are made, as outlined in the text. As Mark Twain said, “There is nothing as practical as a good theory.” Students need to know these basic concepts so they can make effective decisions in new situations. Examples of this conceptual information in the ninth edition are:

- Customers’ decision-making process (Chapter 4).
- The strategic profit model and approach for evaluating financial performance (Chapter 6).
- Price theory and marginal analysis (Chapters 14 and 15).
- Motivation of employees (Chapter 16).
- In-store shopping behaviors (Chapter 17).
- The Service Gaps model for service quality management (Chapter 18).

Student-Friendly Textbook This ninth edition creates interest and involves students in the course and the industry by making the textbook a “good read” for students. We use Refacts (retailing factoids), Retailing Views, and retail manager profiles at the beginning of each chapter to engage students.

Refacts We have updated and added more interesting facts about retailing, called Refacts, in the margins of each chapter. Did you know that the first use of an Internet retail channel was on August 11, 1994, when a CD by Sting was sold by NetMarket over the Internet? Or that the teabag was developed by a Macy’s buyer and pantyhose was developed by a JCPenney buyer? Or that Chipotle is by far the largest purchaser of natural meat in the United States?

Retailing Views Each chapter contains either new or updated vignettes, called Retailing Views, to relate concepts to activities and decisions made by retailers. In the ninth edition, more than 50 percent of Retailing Views are new, and the remaining have been updated. The vignettes look at major retailers, like Walmart, Walgreens, Target, Kohl’s, Neiman Marcus, and Macy’s, that interview students on campus for management training positions. They also discuss innovative retailers like REI, Starbucks, Zara, Mango, Amazon, The Container Store, Sephora, Forever 21, Chico’s, and Bass Pro Shops. Finally, a number of Retailing Views focus on entrepreneurial retailers competing effectively against national chains.

Profiles of Retail Managers To illustrate the challenges and opportunities in retailing, each chapter in the ninth edition begins with a brief profile, in their own words, of a manager or industry expert whose job or expertise is related to the material in the chapter. These profiles range from Debbie Harvey, president of Ron Jon Surf Shop, and Ken Hicks, CEO of Foot Locker, and include people who have extensive experience in a specific aspect of retailing, like Tim Hourigan, human resource vice president at Home Depot and Moussa Coulibaly, senior vice president of planning at Dick’s Sporting Goods. The profiles illustrate how senior executives view the industry and suggest career opportunities for college students. They also provide students with firsthand information about what people in retailing do and the rewards and challenges of their jobs and careers.

SUPPLEMENTAL MATERIALS

To enhance the student learning experience, the ninth edition includes new cases and videos illustrating state-of-the-art retail practices, a web-based computer exercise package for students, and a comprehensive online instructor’s manual with additional cases and teaching suggestions.

Get Out and Do It! exercises are found at the end of each chapter. These exercises suggest projects that students can undertake by visiting local retail stores, surfing the Internet, or using the student website. A continuing assignment exercise is included so that students can engage in an exercise involving the same

retailer throughout the course. The exercises are designed to provide a hands-on learning experience for students.

Monthly Newsletters with Short Cases are based on recent retailing articles appearing in the business and trade press. Instructors can use these short cases to stimulate class discussions about current issues confronting retailers. The newsletter is e-mailed to instructors and archived on the text's web page.

Chapter	Key Changes
Broad Changes	<ul style="list-style-type: none"> • 90 percent new Executive Briefings • Expanded treatment of the role of social and mobile marketing by retailers (e.g., Macy's, Staples) • Increased discussion of going green (e.g., Walmart), CSR, and bottom of the pyramid marketing by retailers • Greater content on franchising and franchisers' expansion efforts, global retailers (e.g., Ikea, H&M, ICA, Grupo Elektra—major vehicle for international expansion) and multi-channel retailing and how technology is changing how consumers search and buy • Numerous new Retailing Views focusing on innovative strategy elements by very visible retailers • All Retailing Views new or updated • Content has been updated in each chapter to reflect latest insights from research and practice • New list of additional readings
1	<ul style="list-style-type: none"> • New Executive Briefing on HSN and Mindy Grossman • New Retail Quiz to motivate study of retailing • Greater Global Focus—examples of retailing in China • Greater focus on CSR and bottom of pyramid retailing • New Retailing View on Grupo Elektra improving the lifestyle of Latin America's working poor • Updated exhibit highlighting the 20 largest retailers • Highlighted entrepreneurs—Howard Shultz (Starbucks) and Do Wan and Jin-Sook Chang (Forever 21). • New Retailing View on Whole Foods—the birth of the organic supermarket
2	<ul style="list-style-type: none"> • New Executive Briefing on Debbie Ferree, DSW's head of merchandise • New Retailing View on Amazon • Updated trends in supermarket retailing • New Retailing View on convenience stores in Japan • Coverage of social media (also identified by social media icons) • New Retailing View on Nordstrom • Greater coverage of franchising
3	<ul style="list-style-type: none"> • New Executive Briefing on Luiza Helena Trajano, president, Magazine Luiza • Chapter reorganized to highlight the evolution of multi-channel retailing and non-store channel options • Expanded discussion of mobile retailing • New Retailing View on Avon in Brazil • Expanded discussions of challenges facing retailers in providing a multi-channel offering • Updated illustration of shopping in the future
4	<ul style="list-style-type: none"> • Increased discussion about the role of the economy in the buying process • New Retailing View highlighting the social media element of "Pinning" and "Likes" • New Retailing View on gender differences
5	<ul style="list-style-type: none"> • New Executive Briefing on David Berg, Outback Steakhouse, CEO International • Discussion on how to build a retail community using social media • New Retailing View of wet markets in Shanghai • New Retailing View of 7-Eleven in Indonesia
6	<ul style="list-style-type: none"> • New Executive Briefing on Ken Hicks, Foot Locker CEO • New Retailing view on TOMS Shoes' social objectives • Discussion of venture capital interest in retailing industry • New Retailing View on Macy's and Costco—successful retailers using different financial models • Comparison of Macy's vs. Costco financial performance carried throughout the chapter
7	<ul style="list-style-type: none"> • New Retailing View on Simon Properties—the largest shopping center management company in the world • New Retailing View—For China's high-end fashion consumers, 'Italy' now just a bullet train away • Numerous updates throughout chapter

8	<ul style="list-style-type: none"> • New Executive Briefing on Brenden O'Brien, sr. real estate manager, Walgreens • New Retailing View on Stage Stores' location strategy
9	<ul style="list-style-type: none"> • New Executive Briefing on Home Depot—Tim Hourigan • New discussion of building employee engagement • Discussion on Starbucks and the use of social media to recruit employees and build engagement with customers • Expanded discussion of employment branding and how retailers win the talent war • Retailing View on why Pret A Manger is not your typical fast-food restaurant
10	<ul style="list-style-type: none"> • New Executive Briefing on Don Ralph, Staples, SVP supply chain • Implications on providing a multi-channel offering on distribution system and warehouse design • New Retailing View on Walmart's greener supply chain • Expanded discussion of reverse logistics • Updated material on use of RFID in distribution
11	<ul style="list-style-type: none"> • Executive Briefing on how a consulting firm uses data to help retailers make better decisions • Addition illustrations of retail analytics and big data • Retailing View on use of loyalty data by Kroger • Greater discussion of privacy concerns • Walmart Moms as an illustration of brand community
12	<ul style="list-style-type: none"> • New Executive Briefing on Moussa Coulibaly, Sr. VP of Planning at Dick's Sporting Goods • New Retailing View on Costco and Walmart: Two Approaches to SKU Rationalization • Updated discussion of fast fashion at Mango
13	<ul style="list-style-type: none"> • New Executive Briefing on Chico's VP merchandising • Increased discussion on exclusive brands • New Retailing View on Kroger's store brands • New Retailing View of Zappos' relationships with merchandise experts • New Retailing View of buying green on an Amazon-owned site—Vine.com
14	<ul style="list-style-type: none"> • New Executive Briefing on Debbie Harvey, Ron Jon Surf Shop • New Retailing View on JCPenney's flip-flop pricing strategy • New Retailing View on Amazon's price check apps and showrooming • New Retailing View on big discounters pure price competition (Target v. Walmart) • New Retailing View on dynamic pricing • New Retailing View on extreme couponing • New content on social and mobile channels and pricing, such as geofencing and getting mobile coupons • New Retailing View on the genuineness of certain discounts offered by online fashion sites
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16	<ul style="list-style-type: none"> • New Executive Briefing on Tara Carroll, store manager, Kohls • New Retailing View on Home Depot centralizing its recruitment processes
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ABOUT RETAILING MANAGEMENT, 9e

GUIDED TOUR

For nine editions, Levy/Weitz/Grewal's *Retailing Management* has been known for its strategic focus, decision-making emphasis, applications orientation, and readability. The authors and McGraw-Hill/Irwin are proud to introduce the ninth edition and invite you to see how this edition captures the exciting, dynamic nature of retailing.

STUDENT FEATURES

This edition continues the emphasis placed on creating interest and involving students in the course and the industry. Refacts, retailing views, and executive briefings at the beginning of each chapter make the textbook a “good read” for students.

Through real-world examples, students are given the opportunity to think about concepts in the text.

Executive Briefings

To illustrate the opportunities and rewards from a career in retailing, each chapter begins with a profile of a retail manager, either a senior executive or recent college graduate, discussing their area of decision-making and their career path. This specific executive briefing from Chapter 5 portrays David Berg, president and CEO of Outback Steakhouse. In his profile, he states, “Going global with retail services, particularly restaurants, is more challenging than the international expansion of product-focused retailing.” Retailers are using the Internet and other technologies to provide more value to their customers, increase customer service, and improve operating efficiencies.

EXECUTIVE BRIEFING

David Berg, President and CEO of Outback Steakhouse International LLC



My career path in retailing is somewhat unusual. After graduating from Emory University with a degree in economics, I went to law school at the University of Florida. During law school, I was attracted to corporate law, which was a good fit with my undergraduate training in economics. I took a position in the corporate counsel's office at NordieTrack. At the time, NordieTrack was best known for its cross-country ski simulator, which dominated the home fitness market in the late 1980s.

As the U.S. market for the NordieTrack's simulator matured, the company became interested in expanding internationally. I volunteered to set up a network of international distributors. While I did not have a lot of retail experience, in law school, I had learned how to be an effective negotiator and how to logically analyze situations—skills that were very valuable in developing a worldwide distribution network.

After NordieTrack, I went to work for Best Buy and eventually was promoted to COO of Best Buy International, responsible for the operations of all of Best Buy's brands and businesses outside of the United States. I was deeply involved in the sale of Best Buy's Musicland subsidiary; its acquisition of a majority interest in Jiangsu Five Star Appliance in China; its

expansion into Mexico and Turkey; and the creation of its joint venture with The Carphone Warehouse, which provided an opportunity to introduce the Best Buy brand in Europe.

My present position is challenging and exciting. Our corporation owns and operates more than 400 restaurants under the brands names of Outback Steakhouse, Carrabba's Italian Grill, Bonefish Grill, Roy's, and Fleming's Prime Steakhouse & Wine Bar. While we have more than 200 Outback Steakhouses in 19 countries, our potential for international expansion is tremendous.

The dining experience for our international customers is similar to our domestic experience. Our international restaurants tend to follow U.S. design guidelines with some modifications to account for local needs and customs. Most restaurants are in shopping centers or office buildings; very few are free standing. In Asian cities, where space is at a particular premium, many restaurants are located above the ground floor and sometimes split in two separate floors.

The international menu is also similar to the U.S. menu, with some changes made to meet local taste preferences. For example, we feature local beef cuts

LEARNING OBJECTIVES

- | | |
|---|---|
| LO1 Identify retailing activities. | LO4 Recognize the opportunities in retailing for you. |
| LO2 Realize the importance of retailing in the U.S. and world economies. | LO5 Understand the strategic retail management decision process. |
| LO3 Analyze the changing retail industry. | |

Learning Objectives

Learning objectives appear at the beginning of each chapter to give students the opportunity to prepare for what they will be required to understand in their reading.

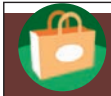
Interesting and Readable Refacts

Refacts (retailing factoids) are interesting facts about retailing, related to the textual material, that are placed in the margins.

REFACT

James Cash Penney opened the first JCPenney store, called Golden Rule, in Kemmerer, Wyoming, in 1902.¹⁸

There has been a dramatic change in the structure of the retail industry over the past 50 years. Fifty years ago, Sears and JCPenney were the only retail firms that had chains of stores across the United States. The retail industry consisted of the small, independent, local retailers competing against other small, independent retailers in the same community. Walmart, Home Depot, Staples, and Best Buy did not exist or were small companies with a few stores. Now, the retail industry is dominated by large, national, and even international retail firms. While there



RETAILING VIEW Grupo Elektra Improves the Lifestyle of Latin America's Working Poor

1.1



Grupo Elektra, with headquarters in Mexico City, owns and operates more than 2,600 specialty stores in Mexico, Brazil, Argentina, Guatemala, El Salvador, Honduras, Panama, and Peru. Its stores sell consumer electronics and appliances to Latin America's working poor. It is quite a challenge to sell consumer durable goods to families earning less than \$400 per month and spend 90 percent of their income on basic necessities, such as food and housing. In addition, these BoP consumers often do not have formal jobs or bank accounts. But Grupo Elektra, and its banking affiliate, Banco Azteca, have been increasing sales and profits during one of the worst economic recessions in decades by servicing these low-income consumers. For the past five years, revenues and operating profits have grown at a double-digit rate.

Rather than wait for low-income consumers to open their own bank accounts so they can afford to buy its products, Elektra launched its own banks inside its network of specialty retail shops. These banks make small "micro-loans" to Elektra's customers so they can afford to buy its appliances. It determines how much money its new customers can really afford to borrow—and then pay back. Within 24 hours, the bank approves or denies a client's loan application using the information gathered by the credit officer at the branch. The officer visits the customers' houses to determine their income and expenses.



Grupo Elektra has developed a successful strategy for selling products and providing micro-loans to its customers at the base of the pyramid.

America—put their money in a cookie jar or below their mattresses. Now, they can establish a bank account for a minimum of only US \$5 and have access to a debit card.

Sources: Erin Carlyle, "Billionaire Ricardo Salinas: Mexico's Credit Card," *Forbes*, May 7, 2012, p.100; Erin Carlyle, "Mexican Billionaire Buys Advance

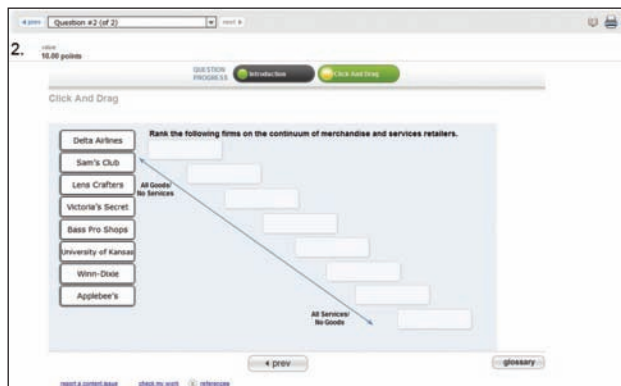
Retailing Views

These vignettes reside in each chapter and relate concepts developed in the text to issues and problems confronting retailers.

SUPPORT FOR STUDENT LEARNING

SmartBook

Fueled by *LearnSmart*, *SmartBook* is the first and only adaptive reading experience available today. Distinguishing what a student knows from what they don't, and honing in on concepts they are most likely to forget, *SmartBook* personalizes content for each student in a continuously adapting reading experience. Reading is no longer a passive and linear experience, but an engaging and dynamic one where students are more likely to master and retain important concepts, therefore coming to class better prepared. Valuable reports provide instructors insight as to how students are progressing through textbook content, useful for shaping in-class time or assessment. As a result of the adaptive reading experience found in *SmartBook*, students are more likely to retain knowledge, stay in class, and get better grades.



LearnSmart

New to this edition, *LearnSmart* is the premier learning system designed to effectively assess a student's knowledge of course content through a series of adaptive questions, intelligently pinpointing concepts the student does not understand and mapping out a personalized study plan for success. *LearnSmart* prepares students, allowing instructors to focus valuable class time on higher-level concepts.



Connect

Students practice key concepts by applying them with these textbook-specific interactive exercises. Provided for every chapter, each interactive application is designed to reinforce key topics and further increase student comprehension. All interactive applications are automatically scored and entered into the instructor's gradebook.

Which of the following statements illustrates an external locus of control?

Click the answer you think is right!

No matter how hard I study, the test will be too hard.

If I study hard enough, I will get a high score on the test.

If I do poorly on the test, I will have to study harder the next time.

Do you know the answer? (Be honest)

I know it Think so Unsure No idea

GET OUT AND DO IT!



1. CONTINUING CASE ASSIGNMENT In most chapters of this textbook, there will be a GET OUT AND DO IT! assignment that will give you an opportunity to examine the strategy and tactics of one retailer. Your first assignment is to select a retailer and prepare a report on the retailer's history, including when it was founded and how it has evolved over time. To ensure that you can get information about the retailer for subsequent Continuing Case Assignments, the retailer you select should:

- *Be a publicly held company so that you can access its financial statements and annual reports.* Do not select a retailer that is owned by another company. For example, Bath & Body Works is owned by Limited Brands, so you can get financial information about only the holding company and not the individual companies it owns, such as Victoria's Secret and White Barn Candle.
- *Focus on one type of retailing.* For example, Abercrombie & Fitch operates just one type of specialty store and thus would be a good choice. However, Walmart operates discount stores, warehouse club stores, and supercenters and thus would not be a good choice.
- *Be easy to visit and collect information about.* Some retailers and store managers may not allow you to interview them about the store, take pictures of the store, talk with sales associates, or analyze the merchandise assortment in the store. Try to pick a retailer with a local store manager who can help you complete the assignments.

Some examples of retailers that meet the first two criteria are Whole Foods Market, Dress Barn, Burlington Coat Factory, Ross Stores, Ann Taylor, Cato, Finish Line, Foot Locker, Brookstone, Claire's, Walgreens, Staples, Office Depot, American Eagle

Outfitter, Pacific Sunwear, Abercrombie & Fitch, Tiffany & Co., Zales, Autozone, Pep Boys, Hot Topic, Wet Seal, Best Buy, Family Dollar, Dollar General, Michaels, PetSmart, Dillard's, Pier 1 Imports, Home Depot, Lowe's, Bed Bath & Beyond, Men's Wearhouse, Kroger, Kohl's, Radio Shack, Safeway, and Target.

- 2. GO SHOPPING** Visit a local retail store, and describe each of the elements in its retail mix.
- 3. 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/#ecommerce. Look at "Estimates of Monthly Retail and Food Services Sales by Kind of Business" for the most recent year. In which months are sales the highest? Which kinds of businesses experience the greatest fluctuations in monthly sales? List reasons that help explain your findings.
- 4. INTERNET EXERCISE** Go to the home pages of Macy's, Target, Walmart, Toys R Us, and the National Retail Federation Retail Careers Center (www.nrf.com/RetailCareers/) to find information about retail careers with these organizations. Review the information about the different positions described. In which positions would you be interested? Which positions are not of interest to you? Which employer would interest you? Why?
- 5. INTERNET EXERCISE** Choose one of the top 20 retailers (Exhibit 1-5). Go to the company's website, and find out how the company started and how it has changed over time.
- 6. INTERNET EXERCISE** Go online and find an example of a retailer involved in corporate social responsibility. In a brief paragraph, describe how this retailer is taking steps to contribute to a social or ethical cause.

GET OUT AND DO IT! EXERCISES

Found at the end of each chapter, these exercises suggest projects that students can undertake by either visiting local retail stores, surfing the Internet, or using the student Web site. The exercises are designed to provide a hands-on learning experience for students. A continuing exercise is included in each chapter so that students can be involved in an experiential exercise involving the same retailer throughout the course.

Online Learning Center

The Online Learning Center provides students with exercises to evaluate international expansion opportunities, examine financial performance of retailers, analyze potential store locations, develop a merchandise budget plan, edit the assortment for a category, make pricing and markdown decisions, and determine break-even sales levels. Sample test questions and flash cards are provided for each chapter.

The student site provides:

- Chapter Quizzes
- Tutorials and Modules
- Flashcards

INSTRUCTOR RESOURCES

Online Learning Center

Through our convenient Online Learning Center, you can access everything you need in preparation for your course. A secured resource site provides your essential course materials to save you prep time before class.

The instructor site provides:

- Instructor's Manual
- PowerPoint presentations
- Testbank/EZ Test
- Newsletters
- Tutorials and modules for students
- Chapter quizzes
- Flashcards for students

Video DVD

More than 30 video segments are available to illustrate issues addressed in the text. A number of the videos complement the cases located at the end of the text. These video segments are available on the video DVD. ISBN: 0077512332

www.mhhe.com/levy9e

Retailing Newsletter

Each month, the authors prepare and distribute through email a retailing newsletter. The newsletters contain several videos and twelve abstracts of articles appearing in the business or trade press about current issues facing retailers specifically and the industry in general. These newsletters are also accessible on the Online Learning Center.

Cases

To stimulate class discussion about issues confronting retail managers, the authors provide current and thought-provoking cases. For this edition, included at the end of the text are a total of 38 cases with 11 brand new cases to use for your course.

Assurance of Learning Ready

Many educational institutions today are focused on the notion of *assurance of learning*, an important element of some accreditation standards. *Retailing Management* is designed specifically to support instructors' assurance of learning initiatives with a simple, yet powerful solution.

Each test bank question for *Retailing Management* maps to a specific chapter learning outcome/objective listed in the text. Instructors can use our test bank software, EZ Test and EZ Test Online, or *Connect Marketing* to easily query for learning outcomes/objectives that directly relate to the learning objectives for their course. Instructors can then use the reporting features of EZ Test to aggregate student results in similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB Statement

The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Retailing Management*, Ninth Edition, recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and the test bank to the six general knowledge and skill guidelines in the AACSB standards.

The statements contained in *Retailing Management*, Ninth Edition, are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Retailing Management*, Ninth Edition, and the teaching package make no claim of any specific AACSB qualification or evaluation, we have within *Retailing Management*, Ninth Edition, labeled selected questions according to the six general knowledge and skills areas.

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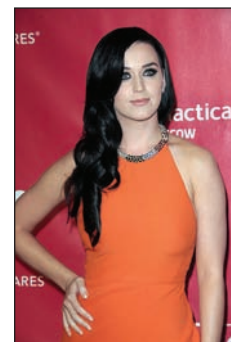
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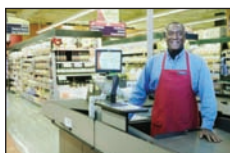
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RETAILING MANAGEMENT



1号店 佳洁士草本水晶牙膏 140g/盒
¥3.40



1号店 资生堂水之密语 凝润水护发洗发露600ml/瓶
¥51.00



1号店 Olay玉兰油清润型护肤沐浴乳 (原美白莹润型)720ml/瓶
¥31.90



1号店 滴露衣物除菌液 (柠檬香型)750ml/瓶
¥12.90



1号店 雷达电热蚊香液无线器 +40晚+2超值装(无香)/个
¥19.90



1号店 黑人牙膏(天然薄荷) 120g+柔刷型牙刷/盒
¥7.80



1号店 海飞丝清爽去油型 去屑洗发露750ml/瓶
¥66.90



1号店 多芬深层滋润滋养美肤 沐浴乳1000ml/瓶
¥40.00



1号店 威露士领洁除菌洗衣液 (清新香气)3kg+1kg/瓶
¥99.50



1号店 云南白药牙膏 (留兰香型)120g/盒
¥22.00



1号店 潘婷丝质顺滑洗发露 750ml/瓶
¥47.80



1号店 Cetaphil丝塔芙洗面奶 200ml/瓶
¥71.90



1号店 洁霸顺清洗衣液 2kg送800g/瓶
¥35.90



1号店 李施德林漱口水 (冰蓝口味)500ml/瓶
¥24.50



1号店 诗芬柔亮质感洗发露 (清爽去屑)400ml/瓶
¥11.80



1号店 六神花露水(普通装) 195ml/瓶
¥9.50



1号店 奥妙99全自热 促销装1.7kg
¥19.80



SECTION I

The World of Retailing

CHAPTER ONE

Introduction to the World of Retailing

CHAPTER TWO

Types of Retailers

CHAPTER THREE

Multichannel Retailing

CHAPTER FOUR

Customer Buying Behavior

The chapters in Section I provide background information about the types of retailers, the different channels they use, their customers, and competitors: information that is used to effectively develop and implement a retail strategy.

Chapter 1 describes the importance of retail industry to the U.S. economy and, more generally, to society as a whole, as well as the organization of this book around the decisions retailers make to satisfy their customers' needs.

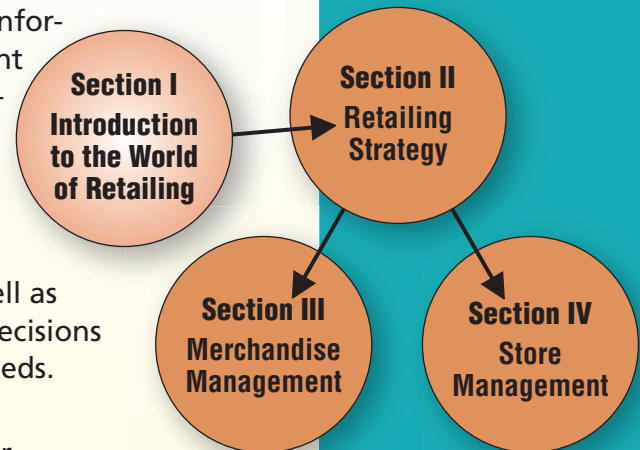
Chapter 2 describes different types of food, merchandise, and services retailers and their ownership structures.

Chapter 3 examines the channels retailers use to satisfy the needs of their customers and the challenges they face in coordinating these multiple channels—stores, the Internet, catalogs, and mobile—when interacting with their customers.

Chapter 4 discusses the process that consumers go through when choosing retail outlets and channels to buy merchandise and how retailers can affect this buying process.

The chapters in Section II focus on the decisions retailers make to develop strategic assets—assets that enable retailers to build sustainable competitive advantages.

The chapters in Sections III and IV explore the more tactical execution decisions involving merchandise and store management.



Introduction to the World of Retailing

EXECUTIVE BRIEFING

Mindy Grossman,
Chief Executive Officer, HSN Inc.

When I was a senior in college, I had a revelation about my life and the direction in which I was heading. I immediately called my parents and told them that I was not going to marry my high school boyfriend and go to law school like I had planned. I was going to follow my passion and head to New York to work in the fashion industry. Needless to say, they were surprised.

When I received my first VP position at 26, my parents finally stopped asking when I was going to go back and get my law degree. I've been on an exciting ride since then and have been fortunate enough to hold esteemed positions at great companies, such as the SVP of menswear at Warnaco, VP of new business development at Polo Ralph Lauren, president of Chaps Ralph Lauren, president and CEO of Polo Jeans Company, and global VP for Nike.

Then I received a call one day to meet with Barry Diller, who was the president of IAC, which owned HSN at the time. After discussing my ideas with him, I discovered I had the ability to make an impact on this company and transform HSN into a lifestyle network. My friends and colleagues were shocked when I announced that I was leaving Nike and going to HSN. They had gone through eight CEOs in 10 years and I would be the first female CEO of the company. I saw the company's potential and was excited to take on the challenge.



Over the last seven years, we have transformed HSN into a dynamic, interactive, multichannel retailer that offers a curated assortment of exclusive products from top lifestyle brands and engages our customers wherever and whenever they would like to shop. As a matter of fact, close to 40 percent of our HSN sales come from our digital platform—online, tablet, mobile, and social media.

Our product offering is diverse with 79,000 unique products, 70 percent of which are proprietary to HSN. Widely respected celebrities and designers, such as Queen Latifah, India Hicks, Badgley Mischka, Naeem Khan, and New York fashion icon, Iris Apfel, have come to our campus in St. Petersburg, Florida to promote their products. We also have had Mary J. Blige, Mariah Carey, and P. Diddy sell their fragrances on HSN.

LEARNING OBJECTIVES

- LO1** Identify retailing activities.
- LO2** Realize the importance of retailing in the U.S. and world economies.
- LO3** Analyze the changing retail industry.
- LO4** Recognize the opportunities in retailing for you.
- LO5** Understand the strategic retail management decision process.

Our ability to entertain and inspire versus just selling a product is really how retail is evolving. We bring content, community, and commerce to life through our strategic partnerships with the entertainment community across film, music, and live events. We were Universal's partner for the launch of *Snow White and the Huntsman* and our 24-hour event featured 25 designers and brands that created over 220 unique products inspired by the film, including the launch of Oscar-winning costume designer Colleen Atwood's first consumer collection. Our HSN

Live concert series provides our customers with a live music experience featuring some of the music industry's biggest stars. Lionel Richie held a concert at HSN's studios to kick off the release of *Tuskegee*, his first best-selling album in more than 25 years. The power of appearing on HSN is unparalleled.

When I met with Lady Gaga about potentially developing a line for HSN, she said, "You have the coolest job." Think of all the amazing things she has done in her career, and here she was telling me I had a cool job. And you know what? She's absolutely right.

Retailing is such a common part of our everyday lives that we often take it for granted. For most people, retailers simply are places to buy things. At a very young age, children know what stores have the things they want, and they expect to find the products they want when they visit a store or website. Sometimes consumers talk to a sales associate when they visit a store, and other times the only retail employees they interact with are cashiers collecting the money for purchases. Some college students work part-time or over the holidays for retailers and have a somewhat deeper insight into what retailers do. But these limited exposures to retailing are just the tip of the iceberg. Behind the stores, website, sales associates, and cashiers are an army of managers responsible for making sure that the products and services that people want are available when

EXHIBIT 1-1**Quiz on What You Know about Retailing**

1. Which of the following companies is *not* a retailer:
 - (a) McDonald's
 - (b) Holiday Inn
 - (c) Macy's
 - (d) eBay
 - (e) All are retailers
2. What is the annual compensation (salary plus bonus) of a typical Walmart Supercenter 30-something store manager?
 - (a) Under \$49,999
 - (b) \$50,000 to \$89,999
 - (c) \$90,000 to \$149,999
 - (d) over \$150,000
3. Which of the following products/concepts was initiated or developed by retailer buyers?
 - (a) tea bags
 - (b) panty hose
 - (c) Rudolph the Red-Nosed Reindeer
 - (d) establishing Thanksgiving on the third Thursday of November
 - (e) All of these products/concepts were developed/initiated by retailers.
4. What is the largest company in the world in terms of number of employees?
 - (a) Walmart
 - (b) General Electric
 - (c) IBM
 - (d) ExxonMobil
 - (e) Mitsubishi
5. Which of the following retailers is owned by a company headquartered outside the United States?
 - (a) Food Lion
 - (b) Ben & Jerry's Ice Cream
 - (c) 7-Eleven
 - (d) A&P supermarkets
 - (e) All of these are owned by foreign companies.
6. What country has the most efficient retail structure (lowest cost to move merchandise from a manufacturer's factory to a retail stores)?
 - (a) Japan
 - (b) United States
 - (c) South Korea
 - (d) France
 - (e) Germany
7. What percentage of total retailer sales in the United States are made over the Internet?
 - (a) 30 percent
 - (b) 20 percent
 - (c) 14 percent
 - (d) 8 percent
 - (e) 3 percent
8. What percent of the U.S. workforce is employed by retailers or firms selling products or providing services to retailers?
 - (a) 10 percent
 - (b) 17 percent
 - (c) 25 percent
 - (d) 43 percent
 - (e) 62 percent

they want them, where they want them, and at a fair price. Take the quiz in Exhibit 1-1 to check out the accuracy of your views about the retail industry and career opportunities the industry offers. The answers are at the end of the chapter.

To illustrate what is below the tip of the iceberg, consider Macy's. Macy's stocks and sells more than 100,000 different sizes, colors, and brands of products. Managers at Macy's need to determine what subset of these 100,000 items they are going to offer from the millions of potential products Macy's could sell. Then managers negotiate with more than 3,000 suppliers the price they will pay the supplier for the products and the prices they will charge their customers. Managers decide which of the 100,000 products will be sold at each of Macy's 840 stores and how they will be displayed. Managers select, train, and motivate the 150,000 store employees to make sure the merchandise is attractively displayed and customers get the service they expect. And, perhaps most importantly, Macy's managers

develop strategies to guide these decisions and provide a good return to its stockholders while facing intense competition.¹

Working in this highly competitive, rapidly changing retail environment is both challenging and exciting, and it offers significant financial rewards. This book describes the world of retailing and offers key principles for effectively managing retail businesses. Knowledge of retailing principles and practices will help you develop management skills for many business contexts. For example, retailers are the customers for most business-to-consumer (B-to-C) companies such as Procter & Gamble and Hewlett-Packard. Thus, brand managers in B-to-C companies need to have a thorough understanding of how retailers operate and make money so that they can encourage retailers to offer and promote their products. Financial and health care institutions use retail principles to develop their offerings; improve customer service; and provide convenient, easy access to their customers. Thus, any student interested in professional B-to-C selling, marketing management, or finance should find this book useful.

WHAT IS RETAILING?

Retailing is the set of business activities that adds value to products and services sold to consumers for their personal or family use. Often, people think of retailing only as the sale of products in stores, but retailing also involves the sale of services such as overnight lodging in a motel, a doctor's exam, a haircut, or a home-delivered pizza. Not all retailing is done in stores. Examples of nonstore retailing include ordering a T-shirt on your mobile phone app, buying cosmetics from an Avon salesperson, ordering hiking boots from an L.L. Bean catalog, and renting a Blu-Ray from a Redbox kiosk.

LO1

Identify retailing activities.

REFACT

The word *retail* is derived from the French word *retailer*, meaning to cut a piece off or break bulk.²

The Retailer's Role in a Supply Chain

A **retailer** is a business that sells products and/or services to consumers for their personal or family use. Retailers are a key component in a supply chain that links manufacturers to consumers. A **supply chain** is a set of firms that make and deliver goods and services to consumers. Exhibit 1–2 shows the retailer's position within a supply chain.

Retailers typically buy products from wholesalers and/or manufacturers and resell them to consumers. Why are retailers needed? Wouldn't it be easier and cheaper for consumers to cut out the middlemen, the wholesalers and retailers, and buy directly from manufacturers? The answer, generally, is no, because retailers add value and are more efficient at adding this value than manufacturers or wholesalers.

Retailers Create Value

The value-creating activities undertaken by retailers include (1) providing an assortment of products and services, (2) breaking bulk, (3) holding inventory, and (4) providing services.

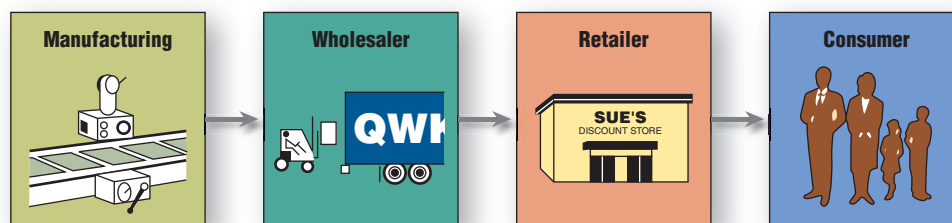


EXHIBIT 1–2

Example of a Supply Chain



Retailers add value by providing an assortment of products that customers can buy at one location when they want them.

Providing Assortments Conventional supermarkets typically carry about 30,000 different items made by more than 500 companies. Offering an assortment enables their customers to choose from a wide selection of products, brands, sizes, and prices at one location. Manufacturers specialize in producing specific types of products. For example, Frito-Lay makes snacks, Yoplait makes yogurt, Skippy makes peanut butter, and Heinz makes ketchup. If each of these manufacturers had its own stores that sold only its own products, consumers would have to go to many different stores to buy the groceries needed to prepare a single meal.

Breaking Bulk To reduce transportation costs, manufacturers and wholesalers typically ship cases of frozen dinners or cartons of blouses to retailers. Retailers then offer the products in smaller quantities tailored to individual consumers' and households' consumption patterns—an activity called **breaking bulk**. Breaking bulk is important to both manufacturers and consumers. It allows manufacturers to efficiently make and ship merchandise in larger quantities at one time and enables consumers to purchase merchandise in smaller, more useful quantities.

Holding Inventory A major value-providing activity performed by retailers is **holding inventory** so that products will be available when consumers want them. Thus, consumers can keep a smaller inventory of products at home because they know local retailers will have the products available when they need more. This activity is particularly important to consumers with limited storage space, such as families living in small apartments.

Providing Services Retailers provide services that make it easier for customers to buy and use products. For example, retailers offer credit so that consumers can have a product now and pay for it later. They display products so that consumers can see and test them before buying. Some retailers employ salespeople in stores or maintain Web sites to answer questions and provide additional information about the products they sell.

Costs of Channel Activities

While the value-creating activities undertaken by channel members provide benefits to customers, they also increase the cost of products and services. Exhibit 1–3 illustrates the supply chain costs of getting a T-shirt from the manufacturer to the consumer. In this example, it costs the T-shirt manufacturer \$10.00 to make and market the T-shirt. These costs include the design, raw materials, labor, production equipment, transportation to the wholesaler, and so on. The manufacturer sells the T-shirt to the wholesaler for \$11.00 and makes \$1.00 profit. The wholesaler incurs \$2.00 to handle and store the T-shirt and transport it to the retailers. The wholesaler sells the T-shirt to the retailers for \$14.00, making a \$1.00 profit.

Channel Member		Profit as a Percentage of Sales	
Manufacturer	Cost	\$10.00	
	Profit	\$1.00	9.10%
	Selling price to wholesaler	\$11.00	
Wholesaler	Price paid to manufacturer	\$11.00	
	Cost to add value	\$2.00	
	Profit	\$1.00	8.00%
	Selling price to retailer	\$14.00	
Retailer	Price paid to distributor	\$14.00	
	Cost to add value	\$4.00	
	Profit	\$1.95	
	Selling price to customer	\$19.95	9.77%

EXHIBIT 1-3

Costs Incurred to Undertake Value-Added Activities in the Distribution Channel for a T-Shirt

The retailer then incurs costs to fold the shirt, put price tags on it, store it, employ sales associates, light and air condition the store, and so on. The retailer sells the shirt to a customer for \$19.95, making a profit of \$1.95.

Note that the costs in the supply chain, \$8.95 (\$19.95 – \$11.00), are almost as much as the cost to make the product. These costs are justified by the considerable value added by the wholesaler and retailers to the product. By providing assortments, breaking bulk, holding inventory, and providing services, retailers increase the benefits that consumers receive from their products and services.

Consider a T-shirt in a shipping crate in an Iowa manufacturer's warehouse. The T-shirt will not satisfy the needs of a student who wants to have something to wear at the basketball game tonight. The student finds the T-shirt more valuable and will pay more for it if it is available from a nearby department store that also sells pants, belts, and other items complementing the T-shirt and provides sales associates who can help the student find what he likes. If retailers did not provide these benefits, wholesalers or manufacturers would have to provide them, and they would typically not be as efficient as retailers in providing these benefits.

Retailers Perform Wholesaling and Production Activities

Wholesalers buy and store merchandise in large quantities from manufacturers and then resell the merchandise (usually in smaller quantities) to retailers. When manufacturers like Apple and Nike sell directly to consumers, they are performing the production, wholesaling, and retail business activities. Some large retailers, like Costco and Home Depot, function as both retailers and wholesalers: They perform retailing activities when they sell to consumers, but they engage in wholesaling activities when they sell to other businesses, such as restaurants or building contractors.

In some supply chains, the manufacturing, wholesaling, and retailing activities are performed by independent firms, but most supply chains feature some vertical integration. **Vertical integration** means that a firm performs more than one set of activities in the channel, as occurs when a retailer engages in wholesaling activities by operating its own distribution centers to supply its stores. **Backward integration** arises when a retailer performs some wholesaling and manufacturing activities, such as operating warehouses or designing private-label merchandise. **Forward integration** occurs when a manufacturer undertakes retailing and wholesaling activities, such as Apple operating its own retail stores.

Most large retailers such as Safeway, Walmart, and Lowe's manage their own distribution centers and perform activities undertaken by wholesalers. They buy directly from manufacturers, have merchandise shipped to their warehouses, and then distribute the merchandise to their stores. Other retailers, such as J. Crew and Victoria's Secret, are even more vertically integrated. They design the merchandise they sell and then contract with manufacturers to produce it exclusively for them.