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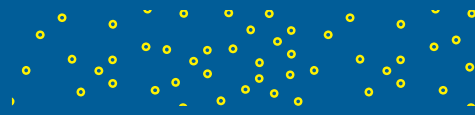
RETAILING MANAGEMENT

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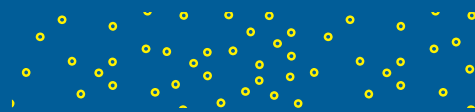


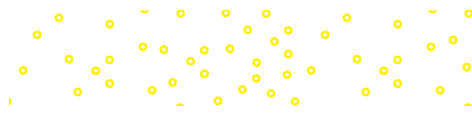
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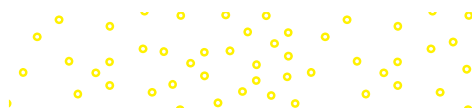
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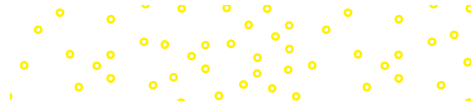
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RETAILING MANAGEMENT

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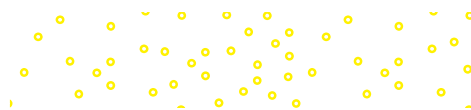
ISBN 978-1-265-07246-9

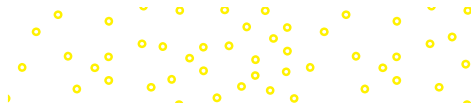
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*To Barton A. Weitz, our coauthor, colleague, and friend.
May he rest in peace.*



ABOUT THE AUTHORS



Michael Levy
Zackary Jarmon

Michael Levy, PhD (Ohio State University), is the Charles Clarke Reynolds Professor of Marketing Emeritus at Babson College and Distinguished Scholar in Residence, Daniels College of Business, University of Denver. He received his PhD in business administration from 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 the inaugural ACRA Academic Lifetime Achievement Award presented at the 2015 AMA/ACRA (American Marketing Association/American Collegiate Retailing Association) Triennial Conference, and was recognized for 25 years of dedicated service to the editorial review board of the *Journal of Retailing* in 2011. He won the McGraw-Hill Corporate Achievement Award for Grewal–Levy *Marketing 2e* with Connect in the category of excellence in content and analytics (2010); Revision of the Year for *Marketing 2e* (Grewal–Levy) from McGraw-Hill/Irwin (2010); the 2009 Lifetime Achievement Award, American Marketing Association, Retailing Special Interest Group (SIG); 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 over 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 has served on the editorial review boards of the *Journal of Retailing*, *Journal of the Academy of Marketing Science*, *International Journal of Physical Distribution and Materials Management*, *International Journal of Business Logistics*, *ECR Journal*, and *European Business Review*, and has been on the editorial advisory boards of *European Retail Research* and *European Business Review*. He is coauthor of *Marketing 8e* (2020). Professor Levy was coeditor of the *Journal of Retailing* from 2001 to 2007. He cochaired the 1993 Academy of Marketing Science conference and the 2006 summer AMA conference.

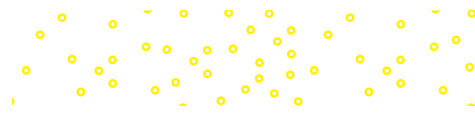
Professor Levy has worked in retailing and related disciplines throughout his professional life. Prior to his academic career, he worked for several retailers and a housewares distributor in Colorado. He has performed research projects with many retailers and retail technology firms, including Accenture,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



Dhruv Grewal
Morse Photography

Dhruv Grewal, PhD (Virginia Tech), is the Toyota Chair in Commerce and Electronic Business and a Professor of Marketing at Babson College. His research and teaching interests focus on direct marketing and e-commerce, marketing research, the broad areas of value-based marketing strategies, services and retailing, and pricing. He is listed in The World's Most Influential Scientific Minds, Thomson Reuters 2014 and 2021, and again as a Clarivate™ Highly Cited Researcher 2020 and 2021. He is also a GSBE Extramural Fellow, Maastricht University, and a Fractional Professor of Marketing at University of Bath. He has been an Honorary Distinguished Visiting Professor of Retailing and Marketing, Tecnológico de Monterrey; a Global Chair in Marketing at





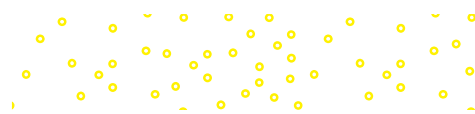
University of Bath; an Honorary Distinguished Visiting Professor of Retailing and Marketing, Center for Retailing, Stockholm School of Economics; and a Visiting Scholar at Dartmouth. He has also served as a faculty member at the University of Miami, where he was a department chair.

Professor Grewal was ranked first in the marketing field in terms of publications in the top-six marketing journals during the 1991–1998 period and again for the 2000–2007 period, and ranked third in terms of publications in *Journal of Marketing* and *Journal of Marketing Research* during the 2010–2019 period. He was also ranked first in terms of publications and third in citations for pricing research for the time period 1980–2010 in 20 marketing and business publications. He has published over 180 journal articles in *Journal of Marketing*, *Journal of Consumer Research*, *Journal of Marketing Research*, *Journal of Retailing*, *Journal of Consumer Psychology*, *Journal of Applied Psychology*, and *Journal of the Academy of Marketing Science*, as well as many other journals. He has over 69,000 citations based on Google Scholar.

Professor Grewal currently serves on numerous editorial review boards, such as *Journal of Marketing* (associate editor), *Journal of the Academy of Marketing Science* (area editor), *Journal of Marketing Research* (associate editor), *Journal of Services Research*, *Journal of Interactive Marketing*, *Journal of Business Research*, and *Journal of Public Policy & Marketing*, and on the advisory board for *Journal of Retailing*. He has also served on the boards of *Journal of Consumer Psychology*, *Academy of Marketing Science Review*, and *Journal of World Business*. He received Best Reviewer Awards (*Journal of Retailing* 2008, *Journal of Marketing* 2014), Outstanding Area Editor (*Journal of Marketing* 2017, *Journal of the Academy of Marketing Science* 2016), and a Distinguished Service Award (*Journal of Retailing* 2009).

Professor Grewal has been the recipient of numerous other awards, including the 2020 (Inaugural) Bala Iyer Award for Lifetime Achievement in Scholarship (Babson College); 2017 Robert B. Clarke Outstanding Educator Award (Marketing Edge, formerly DMEF); 2013 Universitywide Distinguished Graduate Alumnus from his alma mater, Virginia Tech; 2012 Lifetime Achievement Award in Pricing (American Marketing Association Retailing & Pricing SIG); 2010 Lifetime Achievement Award in Retailing (American Marketing Association Retailing SIG); 2005 Lifetime Achievement in Behavioral Pricing Award (Fordham University, November 2005); and Academy of Marketing Science Cutco/Vector Distinguished Educator Award in May 2010. He is a Distinguished Fellow of the Academy of Marketing Science, and has served as VP Research and Conferences American Marketing Association Academic Council (1999–2001) and as VP Development for the Academy of Marketing Science (2000–2002). He was also coeditor of the *Journal of Retailing* (2001–2007).

Professor Grewal has won a number of awards for his research: 2020 William R. Davidson Journal of Retailing Honorable Mention Award (for paper published in 2019); 2019 Louis W. Stern Award (American Marketing Association Interorganizational SIG); 2019 William R. Davidson Journal of Retailing Best Paper Award (for paper published in 2017); 2018 JSR Best Paper Award (for paper published in 2017); 2018 William R. Davidson Journal of Retailing Best Paper Award (for paper published in 2016); 2017 Journal of Interactive Marketing Best Paper Award (for paper published in 2016); 2016 Journal of Marketing Sheth Award; 2016 William R. Davidson Journal of Retailing Best Paper Award (for paper published in 2014); 2015 Louis W. Stern Award (American Marketing Association Interorganizational SIG); 2015 Babson College Faculty Scholarship Award; 2012



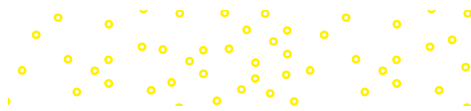


William R. Davidson Journal of Retailing Best Paper Award (for paper published in 2010); 2011 Best Paper Award (La Londe Conference for Marketing Communications and Consumer Behavior); 2011 Louis W. Stern Award (American Marketing Association Interorganizational SIG); 2011; William R. Davidson Journal of Retailing Honorable Mention Award (for paper published in 2009); 2010 Babson College Faculty Scholarship Award; 2010 William R. Davidson Journal of Retailing Best Paper Award (for paper published in 2008); 2010 William R. Davidson Journal of Retailing Honorable Mention Award (for paper published in 2008); Best Services Paper Award (2003) from the American Marketing Association Services SIG presented at the Service Frontier Conference, October 2003, Winter American Marketing Association Conference 2001, Best Paper Award, Technology Track, Summer American Marketing Association Educators' Conference 2000, and University of Miami School of Business Research Excellence Award for years 1991, 1995, 1996, and 1998. He has also been a finalist for the 2018 Journal of Marketing Research Paul Green Award; 2018 Journal of Marketing - Marketing Science Institute/H. Paul Root Award; 2014 Journal of Marketing Harold H. Maynard Award; 2012 Paul D. Converse Award; and 2005 Best Services Paper Award from the Services SIG.

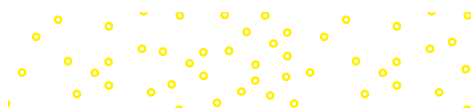
Professor Grewal has coedited a number of special issues including the following: *Journal of Public Policy & Marketing*, "Pricing & Public Policy" (Spring 1999); *Journal of the Academy of Marketing Science*, "Serving Customers and Consumers Effectively in the 21st Century: Emerging Issues and Solutions" (Winter 2000); *Journal of Retailing*, "Creating and Delivering Value through Supply-Chain Management" (2000); *Journal of Retailing*, "Branding and Customer Loyalty" (2004); *Journal of Retailing*, "Service Excellence" (2007); *Journal of Retailing*, "Customer Experience Management" (2009); *Journal of Retailing*, "Pricing in a Global Arena" (2012); *Journal of Marketing Management*, "Retailing," (2013); *Review of Marketing Research*, "In-Store Marketing" (2014); *Psychology & Marketing*, "Nonverbal Behavior and In-Store Marketing Activities" (2014); *Journal of Consumer Marketing*, "Online Marketing" (2015); *Journal of Business Research*, "Shopper Marketing" (2015); *Journal of Retailing*, "Future of Retailing" (2017); *Journal of the Academy of Marketing Science*, "The Future of Technology in Marketing" (2020); *Journal of Retailing*, "Retail Experiences and the Consumer Journey" (2020).

He cochaired the 1993 Academy of Marketing Science Conference; 1998 Winter American Marketing Association Conference "Reflections & Future Directions for Marketing"; December 1998 Marketing Science Institute Conference "Serving Customers and Consumers Effectively in the 21st Century: Emerging Issues and Solutions"; 2001 American Marketing Association doctoral consortium; 2006 American Marketing Association Summer Educator's Conference; 2008 Customer Experience Management Conference; 2010 Pricing Conference; 2011 Direct Marketing Education Foundation research summit; 2012 AMA/ACRA First Triennial Retailing Conference; 2013 Pricing & Retailing Conferences; 2014 Shopper Marketing Conference at SSE; and the 2015 AMA/ACRA Second Triennial Retailing Conference.

Professor Grewal has also coauthored *Marketing* (publisher McGraw-Hill 1e 2008, 2e 2010—Awarded Revision of the Year, McGraw-Hill Corporate Achievement Award for Marketing, 2e with Connect Marketing in the category of Content and Analytical Excellence, 3e 2012, 4e 2014, 5e 2016, 6e 2018, 7e 2020, 8e 2022); *M Series: Marketing* (publisher McGraw-Hill 1e 2009, 2e 2011, 3e 2013, 4e 2015, 5e 2017, 6e 2019, 7e 2021); *Retailing Management* (publisher McGraw-Hill 9e 2014, 10e 2018—it is the leading textbook in the field); and *Marketing Research* (publisher: Houghton Mifflin Co., 1e 2004, 2e 2007). He was ranked number 86 for Books in Business and Investing by Amazon (January 29, 2013).



Professor Grewal has won many awards for his teaching: Sherwin-Williams Distinguished Teaching Award, Society for Marketing Advances (2005); American Marketing Association, Award for Innovative Excellence in Marketing Education (2003); Academy of Marketing Science Great Teachers in Marketing Award (1999); Executive MBA Teaching Excellence Award (1998); School of Business Teaching Excellence Awards (1993, 1999); and Virginia Tech Certificate of Recognition for Outstanding Teaching (1989). He has taught executive seminars and courses and worked on research projects with numerous firms such as Dell, ExxonMobil, IRI, RadioShack, Telcordia, Khimetrics, Profit-Logic, McKinsey, Ericsson, Motorola, Nextel, Florida Power & Light, Lucent, Sabre, Goodyear Tire & Rubber Company, Sherwin-Williams, and Asahi. He has delivered seminars in the United States, Europe, Latin America, and Asia, and has served as an expert witness or worked as a consultant on numerous legal cases. He also has served on the Board of Directors of Babson Global and on the Board of Trustees of Marketing Edge.



We are excited to bring you the eleventh edition of *Retailing Management*. It has been four years since our last revision, and as you know, a lot has changed in the retail marketplace—and *Retailing Management* has changed with it. The eleventh edition sees significant changes, including a new chapter on digital retailing (Chapter 3). As always, every example, assertion, and key term has been checked, updated, and/or replaced. What follows is a description of the major changes in the text, chapter by chapter.

This eleventh edition of *Retailing Management* builds on the basic philosophy of the previous 10 editions. We continue to focus on both strategic and tactical issues, with an emphasis on financial considerations and implementation through merchandise and store management.

NEW TO THE ELEVENTH EDITION

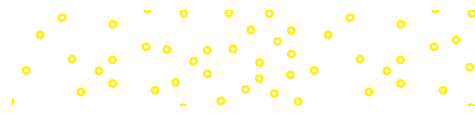
Chapter 1: Introduction to the World of Retailing starts with a discussion of Amazon's retailing strategy through the years. There also two new Retailing View boxes. The first details how Eye Mitra offers entrepreneurial opportunities to retailers working at the bottom of the pyramid. The second considers how Home Depot has maintained its dominance in the home improvement market. Then in the section describing the evolution of the retail industry, a new discussion outlines the impacts of retail analytics and notes some of the effects of the COVID-19 pandemic.

Chapter 2: Types of Retailers opens with a new discussion of Walmart and its expanding brick-and-mortar and online retailing business. This chapter also includes four new Retailing View boxes. For example, the Texas grocer H-E-B is revamping its stores to offer customers more entertainment services, such as music venues, food halls, and even a beer garden. Department stores also are experimenting with new store concepts. Then a new box details the major players in the growing secondhand fashion market. The last new Retailing View discusses the popularity of off-price retailers.

Chapter 3: Digital Retailing is a completely new chapter. It deals with the intricacies of digital retailing across five sections. That is, it presents the 7C framework of digital retailing, discusses mobile and social retailing, presents different types of digital retailing media, considers the growing role of influencers, and finally describes how retailers can engage their customers. The opener for this new chapter presents Macy's and its embrace of digital retailing with its Style Crew. The five Retailing View boxes also are completely new, covering how H&M's digital strategy highlights its sustainability; how an investor is taking distressed retailers and turning them into online shops; how Facebook's new Shops feature works; how retailers are using TikTok to grow their businesses; and finally, how retailers can rely on Amazon Attribution to track their sales.

Chapter 4: Multichannel and Omnichannel Retailing begins with a discussion of Nordstrom's and Nike's different efforts to adopt omnichannel retailing through mobile applications. A new Retailing View box in this chapter details Lululemon's acquisition of the Mirror in-home fitness equipment and the effects on its product sales. Another new box describes the livestreaming channel that H&M employs to sell products and answer consumer questions in real time. In addition, a new Retailing View examines Avon's app-driven digital strategy. Finally, a new box considers direct-to-consumer brands and their showrooming practices.

Chapter 5: Consumer Behavior opens with an account of DoorDash and Grubhub and their responses to changing customer buying behaviors amid the COVID-19 pandemic. There is a new Retailing View box pertaining to Best Buy and its investments to achieve



a strong reputation as an information source for consumers and thus maintain its competitive advantage. Another new box highlights consumers' increasing awareness of sales strategies. In acknowledging COVID-19 safety considerations, a third new Retailing View box presents the role of social media influencers for reassuring consumers. Finally, a last new box describes how bridal retailers can address the needs of plus-size customers.

Chapter 6: Retail Market Strategy has a new opener about The Container Store's marketing strategy. This chapter also contains four new Retailing View boxes. The first details Burger King's efforts to appeal to consumers who do not eat meat. The second presents Wayfair and its adoption of high-tech tools to attract customers. The third highlights Madewell's relative success, compared with its parent company, J.Crew, which it has achieved through its denim designs and assortment. The fourth and final new box covers Hot Topic and its targeting of Generation Y shoppers.

Chapter 7: Financial Strategy starts with a discussion of TJX companies. A new Retailing View box highlights differences in the strategies adopted by Target and Walmart, to explain why both can be successful. Another new box details the pros and cons of multilevel marketing strategies. Best Buy's new lending program is the focus of the third new Retailing View box.

Chapter 8: Retail Locations includes several new features and updates. Three new boxes explain food trucks' location strategies, how luxury brands determine where to place their pop-up stores, and why clustering close to competitors can be beneficial for retailers in the fitness industry.

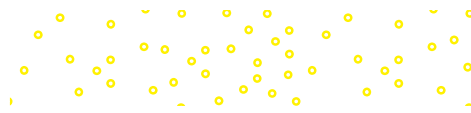
Chapter 9: Retail Site Location also contains several revisions, including the addition of three new Retailing View boxes. One of these boxes describes how retailers in airports have been affected by the COVID-19 pandemic. The second outlines the new high-tech tools available to help retailers determine where to place their stores. The last new box explains how and why retail tenants are trying to renegotiate lease agreements with their landlords in the wake of the pandemic.

Chapter 10: Information Systems and Supply Chain Management opens with a new vignette on how Kroger has used its supply chain excellence to make its meal kit option, Home Chef, even better. There is also a new box detailing how Wendy's fresh beef supply chain suffered due to the COVID-19 pandemic. In describing why and how retailers such as Old Navy and Target collaborate with delivery companies like Postmates and Shipt, another new box details the expanded shipping options for customers. The other new box in this chapter addresses Amazon and its simplified returns process.

Chapter 11: Customer Relationship Management begins with a new opener on IKEA's take on customer relationship management, which mainly involves offering more services to customers. In addition, four new Retailing View boxes appear throughout this chapter. The first highlights the various ways in which Wegmans's loyalty program provides customers with value. Another new box on Starbucks's mobile loyalty program notes its expansion and popularity. The third new box presents retailers that integrate chatbots as a tool to address customer questions and concerns in real time. Finally, a box in this chapter explains how Etsy creates user communities.

Chapter 12: Managing the Merchandise Planning Process begins with the story of Dick's Sporting Goods and its efforts to differentiate its merchandise offerings to meet current outdoor activity trends. There are also several new boxes. A new Retailing View investigates the shifting power relations associated with category captains in grocery stores. Another shift is evident in a new box that covers fashion retailers' revised offerings of more comfortable clothing to people working from home. The small fashion retailer Bode and its use of artificial intelligence to repurpose old quilts into trendy clothing is the focus of another new box. Finally, a Retailing View focused on The Gap details its product line expansions.





Chapter 13: Buying Merchandise starts with a new discussion of Target’s extensive private-label merchandising efforts. A new box also covers Costco’s Kirkland Signature private-label brand. Then a new Retailing View discusses “made in America” as a viable retailing strategy. Another new box considers the seemingly unlikely alliance recently formed between Kroger and Walgreens. Finally, Ulta Beauty’s new sustainability standards for its products take center stage in the fourth new box.

Chapter 14: Retail Pricing starts with a new opener that describes the distinct pricing strategies adopted by the top wireless carriers in the United States. There are also four new Retailing View boxes, pertaining to Panera’s new subscription pricing model, the motives for managing merchandise and marking down prices, the unique pricing strategy of an off-price retailer called Crazy Cazboy’s, and Disney’s theme parks’ dynamic pricing strategy.

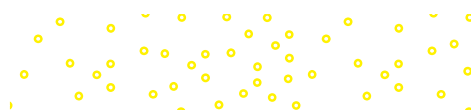
Chapter 15: Retail Communication Mix opens with a new vignette about streaming services and their experiments with personalized product placements. A new Retailing View explores Walmart’s uses of unboxing videos. There is also a new box on Noihsaf Bazaar, as well as a consideration of why retailers seem to be eliminating paper coupons. Finally, a new Retailing View addresses Amazon’s POP displays.

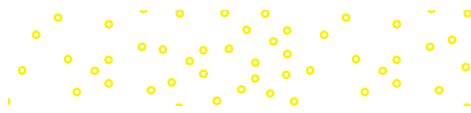
Chapter 16: Human Resources and Managing the Store has undergone many updates and revisions, including the addition of five new Retailing View boxes. The first explores retailers’ efforts to assess and improve their own recruiting and hiring performance. A second box addresses retailers’ decisions about whether to open on Black Friday or give employees a day off. Walmart is experimenting with a team-oriented approach to its human resource management, which is the focus of a third new Retailing View. The fourth new box details how Starbucks instead relies on its in-house AI, called Deep Brew, to ensure the happiness of both customers and employees. Finally, retailers might circumvent some labor laws by using technology instead of traditional cashiers, a topic for the last new box in this chapter.

Chapter 17: Store Layout, Design, and Visual Merchandising starts with a new vignette pertaining to the uses of technology to enhance store designs. There is also a new Retailing View discussing the pros and cons of cashless economies. As detailed in another new box, Canada Goose is designing its stores to increase customers’ sense of fun and adventure. The new box on TerraCycle stations in grocery stores instead highlights how this design can help customers recycle their product containers. The rationale for the design of a totally new hair salon offering by Amazon is the subject of the last new box in this chapter.

Chapter 18: Customer Service begins with a new opener on Walgreens health services. Then the two new Retailing View boxes outline the innovative effort by hotels to provide “staycation” services to guests during the COVID-19 pandemic, as well as the ways in which luxury stores can leverage digital technology to provide expanded services to both in-store and online consumers.

Case Studies: This edition features updates and revisions to all its existing case studies, as well as 14 new cases. Among these new additions, a first case presents Amazon’s Just Walk Out checkout technology. The second explores how Wayfair uses technology to connect with its customers. Another new case focuses on H&M’s digital strategy. There is a case detailing Home Depot’s successful strategies. Next, a new case covers grocery delivery services. Another case presents the vertical gardening company BloomBox. New cases on Daily Table, McDonald’s, and Alibaba are also available. Then a new case covers the key players in the “coffee wars”: Starbucks, Dunkin’, and McDonald’s. A case study dealing with pricing strategies features Planet Fitness; another one, dedicated to service quality considerations, refers to Grubhub. A new case highlights how Zara delivers fast fashion. Finally, the last new case in this edition explores the different strategies used by the major pizza companies, including Domino’s, Pizza Hut, Little Caesars, and Papa John’s.





A LETTER FROM THE AUTHORS

This text is organized around a model of strategic decision making outlined in Chapter 1. Each section and chapter relates back to that overarching strategic framework. To keep students engaged with this focus, we offer the following features:

- **Introductory vignettes**—Each chapter begins with an example of how a stellar retailer is particularly successful by excelling in the subject area for that chapter.
- **Retailing Views**—Each chapter contains new and updated “stories” that describe how particular retailers deal with the issues raised in each chapter. Most of these Retailing Views are new in this edition.
- **New cases**—In Section 5, there are 14 new cases and updates to existing cases.
- **Graphics**—Exhibits in each chapter provide critical, up-to-date information and lively visuals. A vast number of the photos (like the illustrations) are new to this edition.
- **Streamlining**—To facilitate student learning, we have streamlined the presentation, both visually and pedagogically. Based on reviewer comments, we have combined the chapters on human resource management and managing the store. In keeping with our goal of providing a “good read” for students, we continue to substantiate conceptual material with interesting, current, “real-world” retailing examples.
- **Updating**—Every example, fact, and key term has been checked, updated, and/or replaced.

In preparing this edition, we focused on five important factors that continue to delineate outstanding retailers:

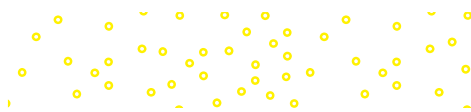
- The use of big data and analytical methods for decision making.
- The application of social media and mobile for communicating with customers and enhancing their shopping experience.
- The issues involved in utilizing digital retail channels and providing a seamless multichannel experience for customers.
- The engagement in the overarching emphasis on conscious marketing and corporate social responsibility when making business decisions.
- The impact of globalization on the retail industry.

We realize that retailing is taught in a variety of formats, both face-to-face and online, so a comprehensive supplemental package for instructors is provided. In addition to the Connect materials described on the following pages and the comprehensive online Instructor’s Manual with additional cases and teaching suggestions, we provide the following:

- **Get Out and Do It!** exercises at the end of each chapter. These exercises suggest projects that students can undertake by visiting local retail stores or surfing the Internet. 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.
- **Authors’ blog at theretailingmanagement.com** includes summaries and discussion questions of recent retailing articles from the business and trade presses. These articles are associated with specific chapters so that instructors can use them to stimulate class discussion.

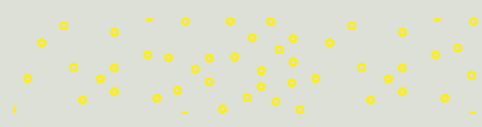
We hope you and your students will enjoy the eleventh edition of *Retailing Management*. Let us know what you think!

Michael and Dhruv





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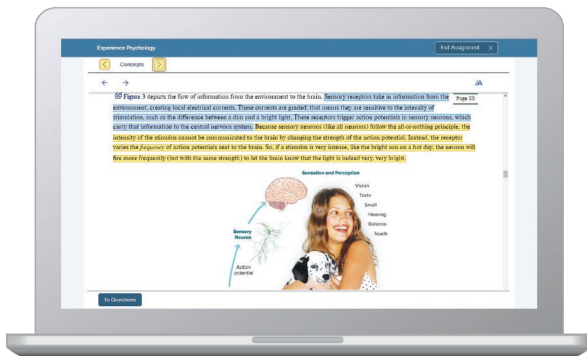
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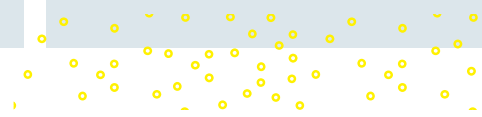
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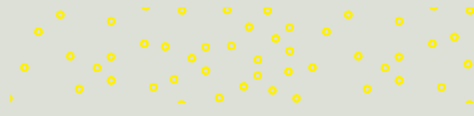
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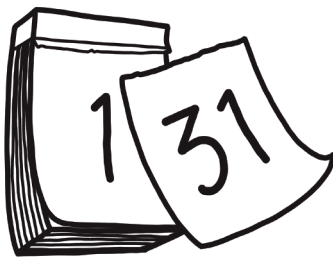
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ACKNOWLEDGMENTS

Throughout the development of this text, several outstanding individuals were integrally involved and made substantial contributions. First, we thank Professor Lauren S. Grewal, Elisabeth Nevins, Jenny Esdale, Hannah Fox, Salina Chan, Hope Corrigan, and Julie Rusch for their important assistance in doing research for the book, writing examples, and preparing the manuscript for publication. We also appreciate the assistance and review of the financial material by Professor Anthony Wain and the information technology material by Professor Clare Gillan. Ancillary materials have become increasingly more integral to the success of any classroom experience. We are privileged to have had a superb team working with us on the 11e: The support, expertise, and occasional coercion from our product developers, Kelsey Darin and Kelly Delso, has always been helpful. Additionally, our production editor, Christine Vaughan; our ever-diligent copyeditor, Sharon O'Donnell, and proofreader, Becky Komro; our eye-to-the-aesthetic and pedagogy photo editor, David Tietz; and our bridge to corporate intellectual property experts, content licensing specialist Beth Cray, are greatly appreciated. We would also like to thank Meredith Fossel, executive brand manager, for her support and dedication to this project.

We would like to thank the Inclusion and Diversity reviewers at CSA for their careful review and consideration of content and language used in this edition. We would also like to thank the following instructors who were instrumental in guiding this revision of *Retailing Management*, as well as previous editions of our text.

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University of Kentucky

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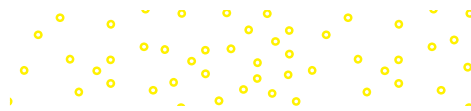
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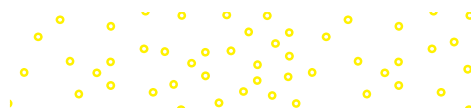
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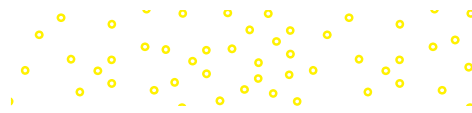
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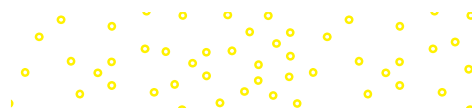
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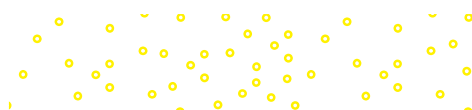
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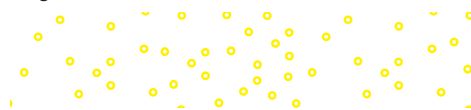
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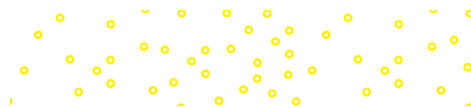
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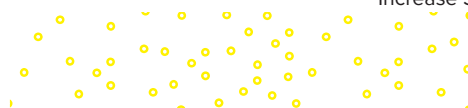
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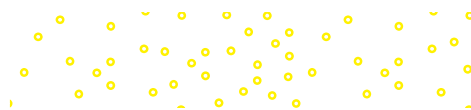
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RETAILING MANAGEMENT



SECTION I

The World of Retailing

The chapters in Section I provide background information about the types of retailers, the different channels they use, their customers and competitors—information that can be used to develop and implement an effective retail strategy.

Chapter 1 describes the importance of the retail industry to the U.S. economy and, more generally, to society as a whole. It highlights how retailing is evolving. It also details the organization of this book, which revolves around the decisions that retailers make to satisfy their customers' needs.

Chapter 2 describes different types of food, merchandise, and service retailers, as well as their ownership structures.

Chapter 3 examines the role of digital retailing and explains how retailers of various types are using digital channels (e.g., online, social, mobile) to reach consumers and facilitate their shopping processes.

Chapter 4 examines how retailers use these various channels to satisfy the needs of their customers but also the challenges they face in coordinating multiple channels when interacting with their customers.

Chapter 5 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 more tactical execution decisions involving merchandise and store management.

CHAPTER ONE

Introduction to the World of Retailing

CHAPTER TWO

Types of Retailers

CHAPTER THREE

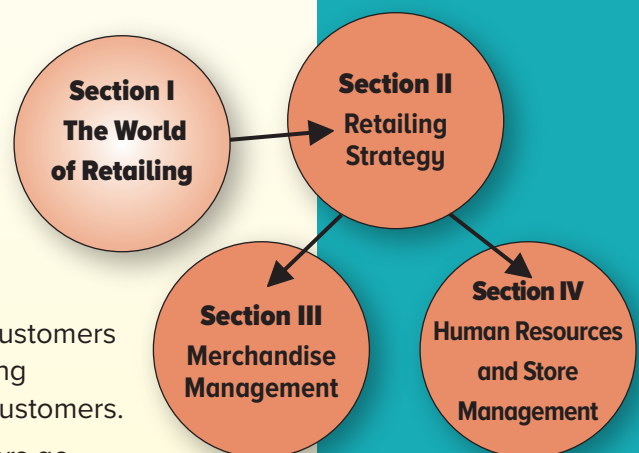
Digital Retailing

CHAPTER FOUR

Multichannel and Omnichannel Retailing

CHAPTER FIVE

Consumer Behavior



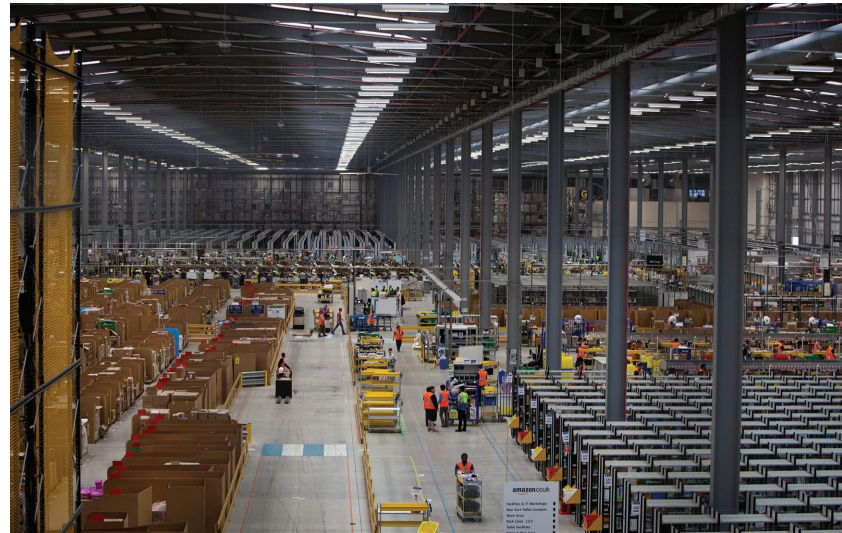
CHAPTER 1

Introduction to the World of Retailing

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- LO 1-1** Identify retailing activities.
- LO 1-2** Realize the importance of retailing in the U.S. and world economies.
- LO 1-3** Analyze the changing retail industry.
- LO 1-4** Recognize the opportunities for you in retailing.
- LO 1-5** Understand the strategic retail management decision process.



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In one sense, retailing has not changed; in the past, for the present, and in the future, it consistently involves various business activities that add value and make products and services available to consumers. But in another sense, retailing is such a dynamic and exciting topic that it cannot help but demonstrate the vast changes that take place on a global, societal scale. Even if the underlying purpose of retailing stays the same, the ways it functions and the benefits it provides keep changing. Understanding both these perspectives is critical to understanding what retailing entails.

To aid in that effort, consider the example of Amazon, one of the best-known retailers in the world. From its start in 1994, Amazon has sold its products through online channels and made them available to anyone, relying on strong delivery operations and competitive prices.¹ But if we were to compare the small bookseller of the mid-1990s with the global behemoth that essentially defines the market, competitive standards, and logistics for modern retailing, we would inevitably recognize vast differences too. Let's consider those changes according to three features

that are central to retailing strategies: products, customers, and competitors.

Amazon's initial retail proposition was to sell books online. But today, its offerings include books—and virtually anything else consumers might want. Visitors to its site find nearly every physical product in production, as well as digital offerings and content and access to services. With more than 350 million products available through its online marketplace,² Amazon essentially functions like a search engine for consumers. According to a recent customer survey, 66 percent of customers start their new product searches on Amazon. It is also a market leader in cloud computing and smart home devices. Additionally, Amazon is continually trying to expand its offerings, such as with the acquisition of Whole Foods, which gave it a dominant position in the grocery retailing sector.³ Amazon also continues to grow its portfolio through acquisitions in the health care, artificial intelligence, and financial sectors.⁴

With these diverse product lines, Amazon aims to become a one-stop, exclusive shopping destination

for consumers. In support of that effort, it has expanded its reach in terms of the channels customers can use to interact with it. Despite its digital origins, Amazon is expanding its presence through brick-and-mortar locations to better serve its customers.⁵ Along with these varied channels, Amazon has developed an expansive, intricate distribution infrastructure that enables it to deliver its products efficiently to more than 100 million customers.⁶ To confirm that it can get consumers books (physical or digital), bulky furniture, perishable foods, and anything else they might desire, Amazon has vertically integrated its fulfillment and distribution infrastructure, such that it now controls the delivery operations for about half of its orders—a staggering increase compared with the less than 15 percent it controlled just a few years ago.⁷

The vast reach and range of offerings that Amazon makes available to consumers also sets a standard that other retailers have little choice but to pursue. These influences have had systematic effects in terms of retail pricing, processes, and channel structures. For example, Amazon uses pricing algorithms that can change prices 2.5 million times per day.⁸ The changes reflect its constant and detailed retail analysis of countless factors, such as customer demand and competitors' prices. As well, it consistently aims to price lower than other retailers in the marketplace,⁹ requiring them to respond in kind. Yet they often struggle to do so because Amazon's pricing engine is fully integrated. To enable its low prices, Amazon also invests in processes to ensure its efficiency and effectiveness, including heavy investments in robotic technologies to automate significant portions of its warehouse logistics.¹⁰ As a result of Amazon's ongoing innovation and expansion, it can deliver approximately 20,000 products to consumers with same-day delivery¹¹—a remarkable achievement that puts massive pressure on competitors to attain similar service excellence.

We consider all these topics, and more, throughout this book. As the example of Amazon shows, some factors always remain the same (e.g., satisfying customers, offering good value). Yet Amazon clearly has redefined the capabilities of traditional retailing while setting a new standard for what retailers can and should accomplish.

Still, 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 products 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, other times they interact with a digital agent on a retailer website, and sometimes the only retail employees they interact with are checkout associates collecting the money for purchases. But these limited exposures to retailing are just the tip of the iceberg. Behind the stores, websites, sales associates, and checkout associates are an army of managers responsible for making sure that the products and services that people want are available when they want them, where they want them, and at a fair price.

To illustrate just how expansive and complex this metaphorical iceberg can be, consider the example of Whole Foods. Before 2018, the grocery chain largely managed its product assortment in a decentralized way. Each Whole Foods store was linked to one of 11 regional-level structures, and individual store managers had the responsibility for customizing their store's product mix. Beyond choosing which products to stock on shelves, store managers could field inquiries and propositions from various suppliers, who might approach them at trade shows, farmer's markets, or online.¹² But once Amazon acquired Whole Foods, it decided to leverage its logistics expertise and expansive existing infrastructure to centralize the merchandising strategy for the entire chain, promising to reduce costs. A single, third-party merchandising firm is now the only point of contact for potential suppliers to Whole Foods; this service provider also determines a standardized product assortment for all stores.¹³

In this sense, working in highly competitive, rapidly changing retail environments 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 customers of many business-to-consumer (B-to-C) companies, such as Procter & Gamble (P&G) and HP Inc. That means that even in B-to-C companies, which seemingly would focus mainly on consumers, brand managers need 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. Any student interested in professional B-to-C selling, marketing management, or finance should find this book useful.

WHAT IS RETAILING?

LO 1-1

Identify retailing activities.

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 and services in stores, but retailing also involves nonstore efforts, such as placing a delivery order for food from a restaurant on a mobile phone app and ordering hiking boots from an L.L.Bean catalog.

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 1-1 shows the retailer's position within a supply chain.

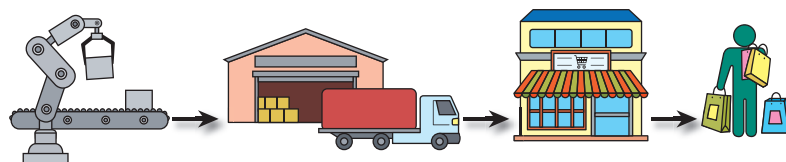
Retailers typically buy products from wholesalers and/or manufacturers and resell them to consumers. Why are retailers needed? Wouldn't it be easier and cheaper for consumers to cut out the intermediaries (i.e., wholesalers and retailers) and buy directly from manufacturers? The answer, generally, is 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, (2) providing services, (3) breaking bulk, and (4) holding inventory.

Providing Product Assortments As a relevant example of *providing an assortment of products*, conventional supermarkets typically carry about 33,000 different items made by more than 500 companies.¹⁴ A broad assortment enables 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 store 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. Instead, grocery store shoppers expect to find a plethora of purchase options. In general, the product mix within stores has increased dramatically over the past 50 years, though it also fluctuates somewhat. For example, during the COVID-19 pandemic, the number of different products sold decreased by about 7 percent, and suppliers such as PepsiCo strategically sought to produce larger quantities of popular items while also discontinuing less popular or more difficult to manufacture items.¹⁵

EXHIBIT 1-1 Example of a Supply Chain



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 websites to answer questions and provide additional information about the products they sell.

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 produce and ship merchandise efficiently and in larger quantities at one time, but it enables consumers to purchase the specific merchandise they want 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 individuals and families living in small apartments.

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 1–2 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 in costs 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 and makes \$1.00 profit. The retailer incurs \$4.00 in costs to handle and store the T-shirt and transport it to the consumer. The retailer sells the T-shirt to the consumer for \$19.95 and makes \$1.95 profit.

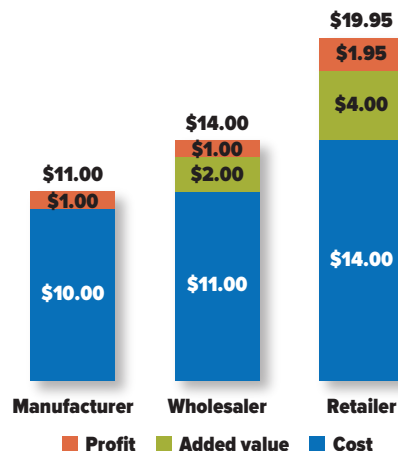
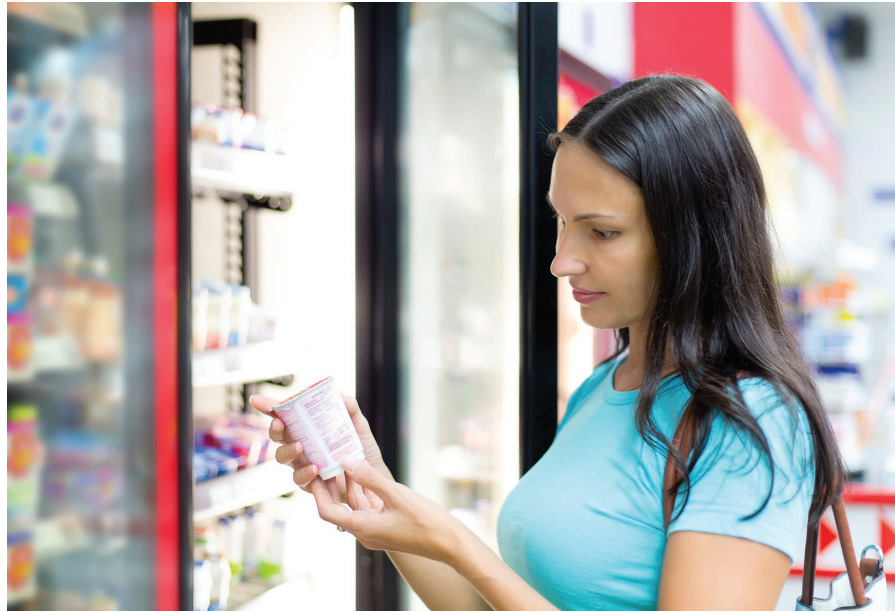


EXHIBIT 1–2
Costs of Value-Added Activities in the Distribution Channel for a T-Shirt



Tony Thiethoaly/Shutterstock

Retailers add value by providing an assortment of goods that can satisfy consumers' needs.

\$14.00, making a \$1.00 profit. 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 product assortments, services, breaking bulk, and holding inventory, retailers increase the benefits that consumers receive.

Consider a T-shirt in a shipping crate in a 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 that provides sales associates who can help the student find what they like. 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. 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. When manufacturers like Apple and Nike sell directly to consumers, they are performing the production, wholesaling, and retail business activities.

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

Most large retailers such as Amazon, 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 Apple and Patagonia, design the merchandise that only they will sell, then contract with manufacturers to produce it exclusively for them. Stores like IKEA and Zara are almost completely vertically integrated, in that they design, manufacture, and distribute most of the products they sell in their stores.



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IKEA and Zara manufacture most the products available in their stores.

Differences in Distribution Channels around the World

There are critical differences in retailing and distribution systems around the world. The United States remains the largest retail market in the world as many leading global retailing companies also are based in the United States (though China is quickly catching up).¹⁶ Real estate in the United States is relatively inexpensive, and most consumers own automobiles. Thus, retailers often operate large stores in lightly populated areas; in terms of retail space per capita, the United States accounts for the most square footage of any country in the world.¹⁷ Due to their substantial size, big name U.S. retailers enjoy scale economies and can operate their own warehouses, eliminating the need for wholesalers. This combination of large stores and large firms results in a very efficient distribution system.

In contrast, India's distribution system is characterized mainly by small stores, operated by relatively small firms, in accordance with high rent prices and the close existing relationships that these small stores have with their local communities.¹⁸ There are an estimated 12 million retail distribution outlets across the country, many of them small, family-owned storefronts. To make daily deliveries to these small retailers efficiently, merchandise often passes through several different redistribution points and wholesalers. The infrastructure to support modern retailing techniques, especially related to transportation and communication systems, is not especially well developed in India. As a result of such efficiency differences, a greater proportion of the Indian labor force is employed in distribution and retailing than is the case in the United States, and the supply chain costs are higher.

In response, India is seeking to modernize its retail landscape, with particular attention to e-commerce. To support the already rapid expansion of e-commerce in India, the government recently altered its long-standing restrictions on foreign investments to allow 100 percent foreign ownership for online retailers of goods and services.¹⁹ In parallel, a "Made in India" initiative seeks to attract more members of retail supply chains, such that Apple has begun manufacturing some iPhone models in India to sell within the country. In so doing, Apple can avoid the 22 percent import tax on mobile devices, so India reducing restrictions can streamline various manufacturers' supply chains and increase their profit margins.²⁰

China's retail industry is, like India's, highly fragmented and composed of many small and medium-sized firms. However, large firms have been increasing their market share in recent years, and China's strong manufacturing sector can supply retailers with a wide range of domestically made products.²¹ It recently removed most restrictions on direct foreign investments, prompting global retailers such as ALDI, Costco, Tim



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Retail industry in China and India is growing rapidly.