BUSINESS 113

RETAIL MANAGEMENT

CONTENTS

MODULE 1: INTRODUCTION TO RETAILING

WHY IT MATTERS: INTRODUCTION TO RETAILING

When is the last time you went to your favorite retailer? What store was it? Is it a clothing store, or is it a grocery store? Maybe you prefer to shop online. Why? Have you wondered about the journey those products take before making it out to the shelves? There are so many aspects to the retail experience and process for us to examine and better understand.

Just how wide is the scope of the retail industry? What drives the retail industry and what changes are on the horizon for the future that will make an impact to this industry? Let's dig a little deeper into the scope and impact of retail to our economy and why it's important for you to understand. We'll put some numbers behind this information so you can see just how big this industry is and the far reaching implications of retailers such as Toys R Us closing its doors.

Today you might be a part-time sales associate, a store manager who oversees a million-dollar store, or in one of the other many sectors of the business. However, tomorrow you could be one of the buyers in the corporate office trying to understand how to leverage your customer's needs to drive sales. At each level you will make key decisions that will impact the retail environment that range from pricing, to assortment planning, and even human resources activities.

Before we dive into the inner workings of the retail industry and why it matters to you — both as a consumer and a professional in that industry — here is a brief video on what some consider the future of retail. Considering where retail is headed helps us look at the current and past landscape of retail with a critical eye.

Watch this video online: https://www.youtube.com/embed/t49JkakYAoE?feature=oembed

INTRODUCTION TO RETAILING

What you'll learn to do: Describe retailing, the entities involved, and the impact of decisions on a retail business

Retailing is important for business students to understand for two main reasons. First, almost all product channel structures conclude with a retailer. This means that no matter where a product starts its journey, it almost always ends up at a retailer. While products may be produced by a manufacture, pass through a wholesaler, or involve transactions with brokers or agents, retailers are the connection to the consumers. Second, retail offers an immense number of job opportunities. Today in the U.S., there are 3,793,621 retail establishments that support 42 million jobs. Retail also contributes $2.6 trillion to the U.S. gross domestic product. (Note: [Note: [1]])

You can view the number of jobs and retail presence in your state at the National Retail Federation (NRF).

Who are these retailers who provide so many jobs for our economy? The NRF posts an annual list of the top one hundred retailers by retail sales. The top ten are listed in the table below.

Rank	Retailer	U.S. Headquarters	2016 Retail Sales
1	Walmart Stores	Bentonville, Arkansas	$353,108,000
2	The Kroger Co.	Cincinnati, Ohio	$103,878,000
3	Costco	Issaquah, Washington	$83,545,000
4	The Home Depot	Atlanta, Georgia	$79,297,000
5	Walgreen	Deerfield, Illinois	$76,604,000
6	Target	Minneapolis, Minnesota	$73,226,000
7	CVS Caremark	Woonsocket, Rhode Island	$72,151,000
8	Amazon.com	Seatte, Washington	$61,619,000
9	Albertsons	Boise, Idaho	$58,443,000
10	Lowe's Companies	Mooresville, North Carolina	$57,486,000

In this section you'll learn more about the retail channel and the strategies that drive its growth.

RETAILING

LEARNING OUTCOME

- Define retailing

Introduction

Retailing involves all activities required to market consumer goods and services to ultimate consumers who are purchasing for individual or family needs.

By definition, B2B purchases are not included in the retail channel since they are not made for individual or family needs. In practice this can be confusing because many retail outlets do serve both consumers and business customers—like Home Depot, which has a Pro Xtra program for selling directly to builders and contractors. Generally, retailers that have a significant B2B or wholesale business report these numbers separately in their financial statements, acknowledging that they are separate lines of business within the same company. Those with a pure retail emphasis do not seek to exclude business purchasers. They simply focus their offering to appeal to individual consumers, knowing that some businesses may also choose to purchase from them.

We typically think of a store when we think of a retail sale, even though retail sales occur in other places and settings. For instance, they can be made by a Pampered Chef salesperson in someone's home. Retail sales also happen online, through catalogs, by automatic vending machines, and in hotels and restaurants. Nonetheless, despite tremendous growth in both nontraditional retail outlets and online sales, most retail sales still take place in brick-and-mortar stores.

The Retail Industry

The term retail refers to the sale of goods and services to the public for consumption. Retailing involves all activities required to market consumer goods and services to consumers who are purchasing for individual or family needs through a point of purchase.

The retail industry covers an enormous range of consumer needs. According to the National Retail Federation, there are sixteen major segments in the industry. As shown below, these categories are not necessarily store types, but they show the breadth of products offered through the retail chain. (Note: https://nrf.com/news/power-players-2015)

Category	Sample Retailers
Auto Aftermarket	Advance Auto Parts, AutoZone, Pep Boys
Department Stores	Kohl's, Macy's, Nordstrom, Saks Fifth Avenue
Drug Stores	CVS, Rite Aid, Walgreen's
Entertainment and Consumer Electronics	AT&T, Apple, Barnes & Noble, BestBuy, GameStop, Toys R Us
Footwear	DSW, Foot Locker
General Apparel	Forever 21, Gap, H&M, Old Navy, TJ Maxx, Urban Outfitters
Health and Beauty	Bath and Body Works, Sally Beauty, Sephora, Ulta
Hobby and Craft	Michael's, Guitar Center, Jo-Ann Fabrics
Home Improvement and Hardware	Home Depot, Ikea, Pier 1 Imports, True Value, Williams-Sonoma
Jewelry and Accessories	Charming Charlie's, Coach, Piercing Pagoda, Signet, Tiffany & Co.
Mass Merchants	Amazon, Costco, Target, Walmart
Restaurants	Chipotle, KFC, McDonald's, Olive Garden, Starbucks
Small-Format Value	Big Lots, Dollar General, Dollar Tree, Family Dollar
Sporting Goods and Outdoor	Bass Pro Shops, Cabela's, Dick's, Sports Authority, REI
Supermarkets	Albertson's, Kroger, QFC, Safeway, Publix, Whole Foods
Women's Apparel	Ann Taylor, Lane Bryant, Talbot's, Victoria's Secret

The retail industry is designed to create contact efficiency—allowing shoppers to buy what they want with a smaller number of transactions. This design doesn't come from a master retail plan; it's driven by market forces. When a retailer sees an opportunity to expand its offering to increase purchases from customers in one location, it will take advantage of it. For example, when Barnes & Noble adds Starbucks coffee shops to its locations, customers visit more frequently and stay longer, increasing the likelihood of additional purchases. Costco recognized that busy holiday shoppers would rather buy a Christmas tree as part of a larger convenience purchase than have a focused (and less convenient) buying experience at a Christmas tree lot. Such opportunities cause retailers to expand their offerings, creating greater contact efficiency for consumers.

Given this logic and opportunity, why doesn't every retailer become a Walmart Super Store filled with every possible product? Like all organizations that market effectively, retailers shape their offerings to a target buyer and must consider the particular shopping experience a buyer is seeking in that moment or context. One experience isn't right for everyone at the same time; nor are all "experiences" compatible. For example, a buyer is expecting a different experience when she fills her car's gas tank and when she stays at a luxury resort.

Retailers define their target buyer segments, identify the service outputs that those segments require, and match their offerings to provide value to each target segment.

We can understand this better by looking at Zara and Forever 21. Both of these retailers offer fast fashion and appeal directly to several markets from pre-teen to young adult, ages 12-24. They generally cycle through products fairly quickly making it appealing for a customer to purchase right away or else risk missing out on the item.

Beyond the distinctions in the products they provide, there are structural differences among retailers that influence their strategies and results. One of the reasons the retail industry is so large and powerful is its diversity. Stores vary in size, in the kinds of services that are provided, in the assortment of merchandise they carry, and in their ownership and management structures.

The U.S. Census Bureau indicates that 94.5 percent of retail companies have only one location or store. (Note: U.S. Census Bureau, 2007 Economic Census.) More than one million retail businesses in the U.S. have fewer than one hundred employees. Most retail outlets are small and have weekly sales of just a few hundred dollars. A few are extremely large, having sales of $500,000 or more on a single day. In fact, on special sale days, some stores exceed $1 million in sales.

This diversity in size and earnings is reflected in the range of different ownership and management structures, discussed below.

Department Stores

Department stores are characterized by their wide product mixes. That is, they carry many different types of merchandise, which may include hardware, clothing, and appliances. Each type of merchandise is typically displayed in a different section or department within the store. The depth of the product mix depends on the store, but department stores' primary distinction is the ability to provide a wide range of products within a single store. For example, people shopping at Macy's can buy clothing for a woman, a man, and children, as well as housewares such as dishes and luggage.

Chain Stores

The 1920s saw the evolution of the chain store movement. Because chains were so large, they were able to buy a wide variety of merchandise in large quantity discounts. The discounts substantially lowered their cost compared to costs of single unit retailers. As a result, they could set retail prices that were lower than those of their small competitors and thereby increase their share of the market. Furthermore, chains were able to attract many customers because of their convenient locations, made possible by their financial resources and expertise in selecting locations.

Supermarkets

Supermarkets evolved in the 1920s and 1930s. For example, Piggly Wiggly Food Stores, founded by Clarence Saunders around 1920, introduced self-service and customer checkout counters. Supermarkets are large, self-service stores with central checkout facilities. They carry an extensive line of food items and often nonfood products. There are 37,459 supermarkets operating in the United States, and the average store now carries nearly 44,000 products in roughly 46,500 square feet of space. The average customer visits a store just under twice a week, spending just over $30 per trip. Supermarkets' entire approach to the distribution of food and household cleaning and maintenance products is to offer large assortments these goods at each store at a minimal price.

Discount Retailers

Discount retailers, like Ross Dress for Less and Grocery Outlet, are characterized by a focus on price as their main sales appeal. Merchandise assortments are generally broad and include both hard and soft goods, but assortments are typically limited to the most popular items, colors, and sizes. Traditional stores are usually large, self-service operations with long hours, free parking, and relatively simple fixtures. Online retailers such as Overstock.com have aggregated products offered them at deep discounts. Generally, customers sacrifice having a reliable assortment of products to receive discounts on the available products.

Warehouse Retailers

Warehouse retailers provide a bare-bones shopping experience at very low prices. Costco is the dominant warehouse retailer, with $79.7 billion in sales in 2014. Warehouse retailers streamline all operational aspects of their business and pass on the efficiency savings to customers. Costco generally uses a cost-plus pricing structure and provides goods in wholesale quantities. A cost-plus pricing structure involves determining what the markup should be for an item and adding that to the cost of the item. The company must first determine the break-even point for the product by calculating all costs involved in marketing, distributing, and producing a product.

Franchises

The franchise approach brings together national chains and local ownership. An owner purchases a franchise which gives her the right to use the firm's business model and brand for a set period of time. Often, the franchise agreement includes well-defined guidance for the owner, training, and on-going support. The owner, or franchisee, builds and manages the local business. *Entrepreneur* magazine posts a list each year of the 500 top franchises according to an evaluation of financial strength and stability, growth rate, and size. The 2016 list is led by Jimmy John's gourmet sandwiches, Hampton by Hilton midprice hotels, Supercuts hair salon, Servpro insurance/disaster restoration and cleaning, and Subway restaurants.

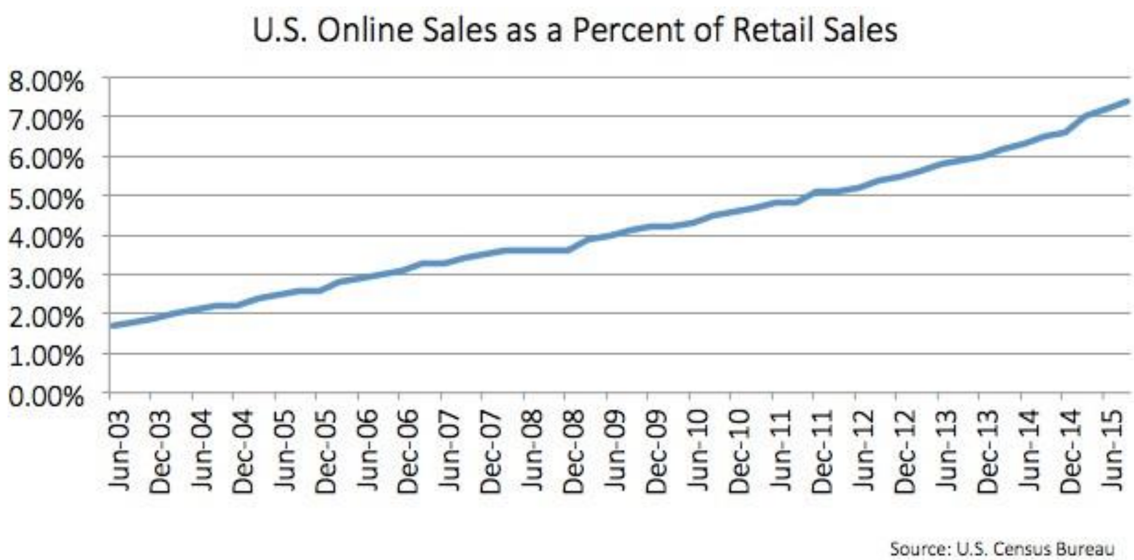
Malls and Shopping Centers

Malls and shopping centers are successful because they provide customers with a wide assortment of products across many stores. If you want to buy a suit or a dress, a mall provides many alternatives in one location. *Malls* are larger centers that typically have one or more department stores as major tenants. *Strip malls* are a common string of stores along major traffic routes, while isolated locations are freestanding sites not necessarily in heavy traffic areas. Stores in isolated locations must use promotion or some other aspect of their marketing mix to attract shoppers.

Online Retailing

Online retailing is unquestionably a dominant force in the industry. Between 2011 and 2015, online retailing is expected to grow from 7% of total retail sales to 15% by 2020. The Asia-Pacific market represents the largest share of the retail ecommerce market while North America is the second largest. Ecommerce sales in North America continue to be fueled by increased spending using smartphones and tablets as well as growth in key categories such as grocery and apparel.

Companies like Amazon and Geico complete all or most of their sales online. Many other online sales result from online sales from traditional retailers, such as purchases made at Nordstrom.com. Online marketing plays a significant role in preparing the buyers who shop in stores. In a similar integrated approach, catalogs that are mailed to customers' homes drive online orders. In a survey on its Web site, Land's End found that 75 percent of customers who were making purchases had reviewed the catalog first. (Note: REBECCA R. RUIZ, Catalogs, After Years of Decline, Are Revamped for Changing Times)



Catalog Retailing

Catalogs have long been used as a marketing device to drive phone and in-store sales. As online retailing began to grow, it had a significant impact on catalog sales. Many retailers who depended on catalog sales—Sears, Land's End, and J.C. Penney, to name a few—suffered as online retailers and online sales from traditional retailers pulled convenience shoppers away from catalog sales. Catalog mailings peaked in 2009 and saw a significant decrease through 2012. In 2013, there was a small increase in catalog mailings. Industry experts note that catalogs are changing, as is their role in the retail marketing process. Despite significant declines, U.S. households still receive 11.9 billion catalogs each year. (Note: http://www.forbes.com/sites/loisgeller/2012/10/16/why-are-printed-catalogs-still-around/#75a143e17fcb)

Nonstore Retailing

Beyond those mentioned in the categories above, there's a wide range of traditional and innovative retailing approaches. Although the Avon lady largely disappeared at the end of the last century, there are still in-home sales from Arbonne facial products, cabi women's clothing, WineShop at Home, and others. Many of these models are based on the idea of a woman using her personal network to sell products to her friends and their friends, often in a party setting.

In addition, the amount of subscription services such as Stitch Fix, Trunk Club, and Amazon Prime Wardrobe has increased. Research from the NPD group shows these services are increasing in popularity although still very much in the beginning stages. The annual spend for these services increased 5% to $170 according to NPD.

Vending machines and point-of-sale kiosks have long been a popular retail device. Today they are becoming more targeted, such as companies selling easily forgotten items—such as small electronics devices and makeup items—to travelers in airports.

Each of these retailing approaches can be customized to meet the needs of the target buyer or combined to span a range of needs.

SUPPLY CHAINS

LEARNING OUTCOME

- Describe the firms involved in a supply chain

Remember your favorite retailer we discussed at the beginning of this course. Have you wondered how the product is made and just how it makes it to the sales floor? The answer to that question is through exploring the supply chain.

What exactly is the retail supply chain? The supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer. (Note: Nagurney, Anna (2006). Supply Chain Network Economics: Dynamics of Prices, Flows, and Profits. Cheltenham, UK: Edward Elgar. ISBN 1-84542-916-8.)

It is important that every part of the supply chain is efficient, nimble, and seamless to allow retailers to deliver product to the customers in the most efficient and profitable way to achieve success and meet its overall goals. Some of the biggest issues in the retail supply chain are customer service, controlling costs, effective supplier/partner relationships, qualified talent, and proper planning.

We can better understand how supply chain issues can affect a company by looking at Chipotle. In 2015 the company stopped serving pork due to the strict requirements they had regarding how animals were raised. It took them some time to find another supplier that met its shortage and therefore had a shortage for approximately 10 months. They are now using a British supplier. As the company continues to expand think about how this will affect the business and how they can work through these issues.

Supplier – Think of the supplier as the person providing the good and/or service. Suppliers can typically be domestic or international. However, one thing to keep in mind is that if you are dealing with international suppliers you will often have longer lead times. Lead times can vary but it is in the best interest of the supplier to deliver the product as quickly and efficiently as possible or else risk losing business to another supplier. Common types of suppliers include manufacturers, wholesalers, and vendors.

Factory – The supplier has the raw materials made into products at the factory. Retailers can work with numerous factories all over the world in meeting demands. A great example of this is Adidas Group. They work with about 800 factories in approximately 55 countries. Most retailers are transparent regarding the factories they use for production of product to improve and promote compliance and safe working conditions.

Distribution Center (DC)/RDC – The DC is also known as the Distribution Center and this can be small and/or large depending on the retailer. This is where the finished product will go after leaving the factory. A great example of a distribution network is Wal-Mart. They have 152 distribution centers that service all Wal-Mart locations, Sam's Club, and delivery to the customer. Each distribution center for Wal-Mart is more then 1 million square feet and has over 600 employees. Remember we talked about the global reach of retail earlier! Think about how an expansive supply chain creates job opportunities!

Goods can go to the retailer or directly to the consumer from the distribution center.

An RDC, Regional Distribution Center, that is more local to the area and has several advantages. They allow retailers to save money and time. If you have multiple stores on the east and west coast a regional distribution center would allow you to quickly transport products to customers and process returns. Regional Distribution Centers are also smaller and less costly to build. One disadvantage of a regional distribution center is that you must replicate processes, procedures, equipment, infrastructure, and labor which can be a challenge for any retailer. Managing inventory in multiple locations can also be costly for the retailer.

Industry Week provides a list of the top 25 supply chains every year. You can find the 2017 list here as well as previous years.

CHALLENGES IN RETAILING

LEARNING OUTCOME

- Summarize the key challenges facing retailers

In today's economy retailers are facing a unique set of challenges. It is important to understand what they are as well as how today's retailer is working to overcome these challenges.

1. **Inventory**

Adequate inventory levels are essential for today's retailer. Having too little or too much can have a dramatic affect on the retailer's reputation as well as the consumer's perception. A key example of how low inventory levels can affect the reputation of a retailer is that of Marks & Spencer in 2012. First quarter clothing sales were down 6.8% that year because they didn't react to accelerated selling on key items. If they had ordered additional inventory to meet consumer demand, they likely would not have lost out on those sales. While having too little inventory is a significant issue in today's environment you can also have too much inventory that leads to unprofitable markdowns.

2. **Mobile Experience and Engagement**

In 2013 mobile was almost 25% ($60 billion) of ecommerce revenue and by 2021 mobile revenue is expected to be $420 billion in the United States. For any retailer that has online operations, mobile engagement must be a significant part of their business. Consumers use their mobile phones for everything from shopping for different prices for products and even shipping costs. In fact, 90% of consumers use smart phones while shopping in stores. So, how can retailers push the envelope here to engage the consumer even more? An example of a company capitalizing on this trend is Walgreens. More than 60% of the retailer's online traffic is from smartphone devices. Their mobile app includes services such as prescription transfers and Quick Print. In addition, they are partnering with a service called MDLive to provide customers with medical doctors 24/7 via smartphone cameras.

3. **Digital Disruption**

Technology is continuously changing the way consumers shop. There are five stages consumers go through whenever purchasing a product. These are

1. Need recognition
2. Information search
3. Evaluating alternatives
4. Purchase decision
5. Post-purchase evaluation.

Social media sites such as Facebook, and Instagram have revolutionized how fast and to what extent consumers can receive information about products. Consumers can rate products and share with their friend base on these sites and communicate directly with companies. According to a Deloitte report, consumers who utilize social media are four times more likely to make a purchase than those who don't. In addition, 29% are more inclined to make a purchase the same day.

It is important to note that there are generational differences in how consumers use technology. For example, 47% of millennials are influenced by social media as opposed to 19% of other age groups. This might change a retailer markets using social media based on the product offering and target market.

Watch the video below to gain an understanding of a few other challenges that have a significant impact on today's retailer. Consider how these are impacting you now as a consumer and an industry professional. What else do you believe could be some other notable challenges in the future and what actions do you believe today's retailer could take to work through these challenges and stay more competitive in today's environment as well as that of the future?

Watch this video online: https://www.youtube.com/embed/liXy2gGQ_x8?feature=oembed

INTRODUCTION TO THE EVOLUTION OF RETAIL

What you'll learn to do: Analyze the evolution of the retail industry

Since its birth, modern retail has significantly changed over time. It is hard to imagine many of the changes that occurred in the 1800s as well as the 1900s as we weren't alive at that time! However, some of you might be familiar with some of the changes in the 1970s and the 1980s. Just think about how retail has evolved in the last decade. There has been a dramatic increase in the amount of consumers who shop on computers and mobile devices. Forrester reports that by 2022 e-commerce sales will represent approximately 17% of total retail sales, up from 13% in 2017. As a result, retailers are improving their online presences and integrating traditional brick and mortar and e-commerce experiences for the consumer.

Discussing the origins of retail can help you understand how major trends change the ways retailers operate.

HISTORICAL CHANGES IN RETAIL

LEARNING OUTCOME

- Describe the overall change in the structure of the retail industry over the past 60 years

Prior to the 1800s retail was predominantly made up of local merchants who provided full service to customers, think of the classic "general store" in any old western movie. This full service often included offering credit, repairs, and offering one-on-one services to consumers to explain the features and benefits of products. Yet, breakthroughs in manufacturing during the industrial revolution lead to a marked increase in affordable quality items. In the early United States textile industry factories began to manufacture their-own ready-made clothes. Affordable blouses, frocks, pants and shirts flooded the market and these ready-made garments sold quickly. The quandary facing mill and factory owners was how best to market these items.

Two retail options existed at that time. The first, involved selling items directly to consumers through company-owned stores. The second option involved employing a commissioned agent in which a company agent would be responsible for delivering manufactured goods to shopkeepers who, in turn, would sell them. The question facing manufacturers and merchants was which option best suited their needs? Customers let it be known that they wanted ready access to a wide assortment of reasonable priced items, and that they were willing to pay a pretty penny for this service. Shoppers' demands posed an interesting challenge to manufacturers and shopkeepers alike which lead to a new form of retailing: the department store.

Business historians often credit a Parisian retailer named Aristede Bouciaut (1810-1877) for developing the first department store. Called Le Bon Marche, this establishment featured the latest fashions and accessories within a spectacular setting. Early 19th century U.S. retailers from Boston to Richmond and from New York to Chicago quickly adopted Le Bon Marche layout and services and the modern department store was born. Large downtown department stores in major metropolitan city centers dominated retailing well into the post-war era.

In the 1950s, over 4,000 department stores operated nationwide with many new stores opening in suburban areas. Yet, by the mid-1960s, over half of the post-war department stores had closed their doors. This was especially noticeable in medium-sized U.S. cities many of which only had one or two downtown stores. The next three decades prompted further department store closings.

During the 1970's many department stores closed and were replaced by discount department stores, shopping centers and large malls which soon accounted for 35% of the entire U.S. retail market. Discount department stores in particular, represented the fastest growing part of this phenomenon with annual profits exceeded $20,000,000,000. Customer loyalty soon became a relic of the past. Savvy new shoppers were more than willing to sacrifice the amenities of downtown department store for cheaper prices. Self-service stores with long check-out lines, indistinguishable departments and aisle upon aisle of items of picked-over garments became the norm, not the exception to the rule.

Fast forward to the 1990's where the utilization of the Internet drastically impacted the retail industry and continues to drive product and marketing innovation to this day. The Internet has transformed how retailers and consumers view the intersections of product, place, price and time. Shoppers now have nearly unlimited access to an unprecedented assortment of products and their purchases are not restricted to a physical "bricks-and-mortar" place or store hours. With a few clicks shoppers can compare prices of goods faster and more efficiently than before. Furthermore, retailers recognized that e-commerce allows for the optimization of inventories while selling a wide range of profit margin goods.

Online shopping allows consumers to directly buy goods or services from a seller over the Internet using a web browser. Consumers find a product of interest by visiting the website of the retailer directly or by searching among alternative vendors using a shopping search engine, which displays the same product's availability and pricing at different e-retailers. As of 2016, customers can shop online using a range of different computers and devices, including desktop computers, laptops, tablet computers and smartphones.

An online shop evokes the physical analogy of buying products or services at a regular “bricks-and-mortar” retailer or shopping center; the process is called business-to-consumer (B2C) online shopping. When an online store is set up to enable businesses to buy from another businesses, the process is called business-to-business (B2B) online shopping. A typical online store enables the customer to browse the firm’s range of products and services, view photos or images of the products, along with information about the product specifications, features and prices.

The popularity and pervasiveness of online shopping shows no signs of slowing down which is putting traditional retailers in a unique position. How can brick-and-mortar stores integrate e-commerce strategically and successfully? In what ways will online retailers emulate brick-and-mortar stores as seen in the trend of popular online stores opening pop up shops for customers to shop in person. By having a better understanding of past industry trends and challenges, modern retailers can learn from their successful predecessors while also blazing a new trail forward.

Highly Reccommended Additional Resources

- The History of Retail: A Timeline infographic
- Understanding the History of Disruptions in Retailing

INFORMATION SYSTEMS IN RETAIL

LEARNING OUTCOMES

- Discuss the role information systems have played in the changing retail industry

Information systems are the tools, hardware and software that help retailers achieve success in a dynamic environment. They serve several functions including planning, inventory control, managing budgets and sales goals, and also with point of sale transactions and logistics.

Let's take a brief look at some of the most frequently utilized information systems in retail.

Inventory management software (IMS) is a software system for tracking inventory levels, orders, sales and deliveries. It can also be used in the manufacturing industry to create a work order, bill of materials and other production-related documents. Companies use inventory management software to avoid product overstock and outages. It is a tool for organizing inventory data that before was generally stored in hard-copy form or in spreadsheets.

One aspect of IMS is Asset Tracking which is when a product is in a warehouse or store, it can be tracked via its barcode and/or other tracking criteria, such as serial number, lot number or revision number. Systems. for Business, Encyclopedia of Business, 2nd ed. Nowadays, inventory management software often utilizes barcode, radio-frequency identification (RFID), and/or wireless tracking technology.

Let's take a look at an example of how one retailer, Lululemon, uses RFID.

Watch this video online: https://www.youtube.com/embed/cZfx2naKYXo?feature=oembed

Here are some other quick stats about RFID:

- RFID allows retailers to improve accuracy from 60 to over 90% due to monitoring stock more often and efficiently.
- Lululemon accuracy improved to over 98% as a result of using RFID. Employees in store are also able to check inventory levels with the customer standing right there!
- RFID tags are utilized now more than ever in retail: Growing from 3 billion tags in 2014 to almost 8 billion in 2017
- Target rolled out RFID to all stores in 2016 and used more than a billion RFID tags in the process.

CRM (Customer Relationship Management)

Customer relationship management software looks at data about current and future customers to help a company understand the customer better in hopes of retaining and building customer relationships.

Customer Relationship Management systems capture the following details to help retailers drive sales and gain a better understanding of the consumer:

1. *Contact Details:* Name, email, social media, how customer learned of company
2. *Personal Profile of Customer:* Family info, hobbies, group memberships and associations
3. *Sales history:* What have they purchased in the past? How did they pay for the item? How did they respond to certain advertisements?
4. *Customer Communication*: This includes any time a customer speaks with a company representative.
5. *Customer Feedback*: Companies typically get feedback by asking customers to fill out surveys.

Let's take a look at the case of Target that lost customer's trust due to a breach in data and what they are doing to gain some of that trust back. Although Customer Relationship Management is critical in understanding the customer there have been recent cases in which personal customer data has been breached causing concern industry wide. Can you think of any other cases in which personal customer data has been breached and what the company did to regain trust?

Watch this video online: https://www.youtube.com/embed/JThjeoIKB0g?feature=oembed

Accounting Information Systems

An **accounting information system** (AIS) is a system of collecting, storing and processing financial and accounting data that are used by decision makers. An accounting information system is generally a computer-based method for tracking accounting activity in conjunction with information technology resources. The resulting financial reports can be used internally by management or externally by other interested parties including investors, creditors and tax authorities. Accounting information systems are designed to support all accounting functions and activities including auditing, financial accounting & reporting, managerial/ management accounting and tax. The most widely adopted accounting information systems are auditing and financial reporting modules.

Summary

When first introduced computer based information systems were controlled by third parties that the retailer hired to do analysis. This was also due to the size of rudimentary computers that could take up an entire room and require teams to run them. As technology advanced, these computers were able to handle greater capacities and therefore reduce their cost. Smaller, more affordable minicomputers allowed larger businesses to run their own computing centers in-house and the began to decentralize the computing power from large data centers to smaller offices. In the late 1970s, minicomputer technology gave way to personal computers and relatively low-cost computers were becoming mass market commodities, allowing businesses to provide their employees access to computing power that ten years before would have cost tens of thousands of dollars. This proliferation of computers created a ready market for interconnecting networks and the popularization of the Internet. High speed networks and enterprise software has enabled all aspects of the business enterprise to be combined together to offer rich information access encompassing the complete management structure. Managers can now access a MIS remotely with laptops, tablet computers and smartphones.

The widespread adoption and usage of MISs is closely related to advancement in modern technology and innovations. As MIS continue to change and become more accessible they play a larger role in the day-to-day life of the retail industry. MISs allow for more internal management, meaning there is less of a need to hire out side of company to do data analysis. Less man hours are needed to do complex projects or filing of paperwork since it can be done electronically and easily completed in store.

The modern day MIS continues to help managers, workers, and shoppers have successful interactions. A MIS assists companies to identifying areas that can help the company improve its business processes and operations. Companies are able to identify their strengths and weaknesses due to the presence of revenue reports, employees’ performance record etc. Since an MIS uses a wide array of data it allows managers and decision makers to accurately and efficiently manages all types of labor and products in a retail setting to increase business value and profits. Benefits of using a MIS include making it easier to track items and products in the supply chain, reducing inventory, reducing labor costs, and establish and maintain good customer relationships.

ADAPTATION IN RETAIL

LEARNING OUTCOME

- Explain why a willingness to adapt is essential to a retailer's survival

In previous sections we discussed the changing retail environment from a consumer and technology point of view. Think about the shifts in the retail industry from the modern day department store to the shopping mall and online shopping. As you consider those shifts also think about how you, the consumer, has changed over time. Do you shop differently then you used to a year ago or even a decade ago? What have been some of your biggest influencing factors? What has been a dramatic shift for you in retail? Lastly, think about how retailers must adapt accordingly to stay relevant to the consumer.

Let's look at examples of retailers that have failed to adapt and why. Some of these examples will be more recognizable than others.

Blockbuster Video

Blockbuster had long history in retail. It was founded in 1995 by David Cook who later sold the company for $18.5 million in 1985. A mere four years later the company was purchased by Viacom for $8.4 billion and soon after went public. So what led to the demise of Blockbuster? Late fees! In 2000 alone Blockbuster received $800 million in late fees and customers hated paying them. Netflix was then founded as an alternative to Blockbuster and the company posted losses of $1.6 billion. What was once a phenomenon and a huge success deteriorated very quickly. The customer moved towards the competition and even though Blockbuster eliminated late fees in 2005 it was already too late. Blockbuster was too slow too adapt and make those changes that were needed to stay relevant in the eyes of the consumer and to the industry as a whole.

Borders Bookstore

Once a thriving retailer, Borders filed for bankruptcy in 2011 and closed all of its 400 locations. What led to its failure? They carried everything from music to movies and even e-readers yet they still struggled to fill their stores with an assortment of products that consumers wanted. From 2001 to 2008, they also outsourced their website to Amazon to create an online presence but, it wasn't enough because they were offering the wrong kinds of products. For example, they continued to offer consumers CD and DVD assortment without consideration of the customer's strong response to online entertainment.

Toys R Us

This is one of the more recent examples of a retailer that failed to adapt. Let's take a look at why. As you watch this video, keep in mind how this impacts the retail industry as a whole. We will discuss human resources a little later but, keep in mind the effect this has on employees as Toys R Us had to lay off over 30,000 employees. In addition, Toys R Us sold 15% of the toy market which had significant effects on toy manufacturers who may have relied on the company for up to 20% of their total sales. Toy manufactures had to figure out how to make up for those lost sales or, if they couldn't, find a way to cope with the loss.

Watch this video online: https://www.youtube.com/embed/ik7nScZiCHI?feature=oembed

Three scenarios above demonstrate how failure to adapt can often lead to the demise of a retailer. However, there are numerous others and as consumer's preferences continuously change this will always be a challenge in the industry.

Ways to Adapt

So how can retailers adapt? How do they change along with the customer? Let's take a look at some of the options they have.

Keep up with customer's shifting preferences and tastes

Trends, music, behavior… These are all things that keep changing but they also have a major impact on how the consumer shops. Remember that 84% of customers use their mobile phone to shop while in store. Nordstrom is a great example of a company that is able to keep up with those shifting preferences. The customer today wants speed, transparency, and control. Nordstrom offers the customer the opportunity to reserve items they want to try on before arriving at the store.

Stay in regular contact with your customer

A McKinsey Global Institute Study found 85% of retail companies are using social media for marketing as opposed to 66% for other companies! There is a great opportunity to maximize this platform by getting to know the customer, what they like, and what they don't like. It's also a great opportunity for customers to provide information on new products they would like to see from your company.

TorontoVaporizer.ca, an online vaporizer and accessory store, is a great example of staying in touch with the customer. Their sales representatives are in constant communication with customers via phone, email, and online chat to gain data on what people want.

Integrate brick and mortar, online, and mobile shopping experiences

Customers want to buy online, pick up in store, and also have the ability to return to the channel that is most convenient. Retailers such as Wal-Mart are now utilizing 'scan-and-go' technology that allows the customer to scan items as they are shopping. JCPenney, Urban Outfitters, and Anthropologie all now have mobile devices such as iPhones and iPads available in store to allow customers to make credit or debit card purchases without going to an actual kiosk. The end goal is to make it easier for the customer to shop seamlessly.

Personalize the Shopping Experience

The customer no longer wants a one-size-fits-all approach when they shop. Retailers can create that personalized experience by gathering data on customer behavior and spending power and using that information to further develop products and experiences that are of interest to the customer. Take a look at the brief video below from United Sweets to understand how they were able to successfully integrate POS and customer management systems with their loyalty program.

INTRODUCTION TO CAREERS IN RETAIL

What you'll learn to do: Recognize career opportunities available in the retail businesses

What opportunities do you believe you would be best suited for in retail? Review the roadmap below to decide where you would be a best fit based on your strengths. If you're not sure yet, you will have a bit more insight by the time you finish the chapter.

For another interesting perspective use the links below to help explore different directions in your career path. You can browse careers in retail and also spend some time looking at future job opportunities!

https://www.mynextmove.org/

Retail Career Roadmap

National Retail Foundation Launches Retail Industry Job Board

KEY ROLES IN A RETAIL BUSINESS

LEARNING OUTCOME

- Identify key roles within retail businesses

There are a myriad of roles within the retail environment. Before we take a deep dive into the career opportunities, let's explo why one would choose a career in retail. What are some of the reasons you are interested in retail? If you haven't considered it why might you consider it? As you watch the video below can you relate to what is said

Watch this video online: https://www.youtube.com/embed/U74NtPa8AdQ?feature=oembed

The retail industry offers diverse and unique career paths where you could work for some of the world's most recognizable brands. Many of the main goals of retail— be it sales and profitability, product innovation, or customer relationships—intersect with other career fields like marketing, finance, technology, loss prevention, merchandising and management. Whether in stores or corporate headquarters many of key roles in retail include internal coordination, planning and logistics, store operations, human resources / training, finance and administration, buying, marketing, logistics, and information technology.

Positions in the retail industry can largely depend on what the company or store is selling. All positions must have some knowledge or familiarity with the products they sell and the needs of customers. At the forefront of the retail team are entry-level positions that tend to have the most face to face time with customers and tend to make up the bulk of the workforce of a company. Positions at this level could be a cashier, stocker, or front end or sales associate. Entry level positions do not require a worker to supervise other workers at the same entry level positions.

The next level up would be intermediate management that supervises entry level and other staff. With diverse roles and departments in the retail industry there is a need for distinct types of management to direct and accommodate different areas and departments:

- Human resource management
- Operations management or production management
- Strategic management
- Marketing management
- Financial management
- Information technology management (responsible for the management information systems)

Management in general is the act of engaging with an organization's human talent and using the physical resources at a manager's disposal to accomplish desired goals and objectives efficiently and effectively. Management comprises planning, organizing, staffing, leading, directing, and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal.

One of the most important duties for a manager is effectively using an organization's resources. This duty involves deploying and manipulating human resources (or human capital), as well as efficiently allocating the organization's financial, technological, and natural resources. Since organizations can be viewed as systems, management can also be defined as human action, such as product design, that enables the system to produce useful outcomes.

Basic Functions

Management operates through various functions, such as planning, organizing, staffing, leading/directing, controlling/monitoring, and motivating.

- Planning: Deciding what needs to happen in the future (today, next week, next month, next year, over the next five years, etc.) and generating plans for action.
- Organizing: Implementing a pattern of relationships among workers and making optimum use of the resources required to enable the successful carrying out of plans.
- Staffing: Job analysis, recruitment, and hiring of people with the necessary skills for appropriate jobs. Providing or facilitating ongoing training, if necessary, to keep skills current.
- Leading/directing: Determining what needs to be done in a situation and getting people to do it.
- Controlling/monitoring: Checking current outcomes against forecast plans and making adjustments when necessary so that goals are achieved.
- Motivating: Motivation is a basic function of management because without motivation, employees may feel disconnected from their work and the organization, which can lead to ineffective performance. If managers do not motivate their employees, they may not feel their work is contributing to the overall goals of the organization (which are usually set by top-level management).

Mary Parker Follett: *Mary Parker Follett defined management as "the art of getting things done through people."*

Depending on the size of the store and the company structure there will be different types and levels of managerial positions.Most organizations have three management levels: first-level, middle-level, and top-level managers. These managers are classified according to a hierarchy of authority and perform different tasks. In many organizations, the number of managers in each level gives the organization a pyramid structure.

Middle-level managers can include general managers, branch managers, and department managers. They are accountable to the top-level management for their department's function, and they devote more time to organizational and directional functions than upper management. A middle manager's role may emphasize:

- Executing organizational plans in conformance with the company's policies and the objectives of the top management;
- Defining and discussing information and policies from top management to lower management;
- Most importantly, inspiring and providing guidance to lower-level managers to assist them in performance improvement and accomplishment of business objectives.These positions seldom involve any customer contact.

Some examples of middle management in the retail industry include:

- Merchandise Manager
- Assistant Store Manager
- Customer Service Manager
- District Sales Manager
- Food or Product department Manager
- Sales Manager
- Store or warehouse Manager

For an extensive list of manger types and titles check out these articles on Retail Job Titles and Descriptions and Types of Jobs in Retail

Additional Resources

- Principles of Management: For more information on management and theory.

WHY WORKING RETAIL IS TOUGH

LEARNING OUTCOME

- List some challenges of working in the retail field

It is important to understand the key challenges retailers face as well as how today's retailer is working to overcome these challenges.

Inventory Levels and Assortment

Adequate inventory levels are essential for today's retailer. Having too little or too much can have a dramatic affect on the retailer's reputation as well as the consumer's perception. Today's retailers must ensure the right amount of product is available at the right times and in the right places. Mark & Spencer's sales losses in 2012 are a key example of how low inventory levels can affect the reputation of a retailer. First quarter clothing sales were down 6.8% compared to the prior year. There were several reasons but, one was that they didn't order enough inventory for popular items which caused many customers to leave their store without purchasing what they wanted. While having too little inventory is a significant issue, you can also have too much inventory that leads to unprofitable markdowns.

A lack of the right type of inventory also affects customer perception which could, in turn, affect sales. For example, a customer wouldn't expect to see Christmas trees in August in their favorite retailer. It would signal to the consumer that the retailer doesn't understand the trends or the season. Therefore, the consumer might be influenced to shop elsewhere. Also consider the other potential impacts of inadequate inventory levels as well as not having the right type of assortment for the customer.

Mobile Experience and Engagement

In 2013 mobile was almost 25% ($60 billion) of e-commerce revenue. For any retailer that has online operations this is a significant part of the business. Consumers use their mobile phones for everything from shopping for different prices for products and even shipping costs. More and more are doing this inside of the store as well as outside of the store. In fact, 90% of consumers use smart phones while shopping in the store. So how can retailers push the envelope here to engage the consumer even more? By 2021 mobile revenue is expected to be $420 billion in the United States. An example of a company capitalizing on this trend is Walgreens. More than 60% of the retailer's online traffic is from smartphone devices. Their mobile app includes services such as prescription transfers and Quick Print. In addition, they are partnering with a service called MDLive to provide customers with medical doctors 24/7 via smartphone cameras.

Digital Disruption

Technology is continuously changing the way consumers shop. There are five stages consumers go through whenever purchasing a product. These are:

1. Need recognition
2. Information search
3. Evaluating alternatives
4. Decision to purchase
5. Post-purchase evaluation.

You have probably experienced this yourself in your own consumption experiences. First there is a recognized need for an item.Then you look for products that fulfill your need. Social media sites such as Facebook, and Instagram have revolutionized how fast and to what extent consumers can receive information about a product which, in turn, helps fulfill the information search stage. Consumers can rate products and share with their friend base on these sites allowing for more information search as well as evaluation of alternatives. They are also able to communicate directly with the company via these social platforms creating an opportunity for them to offer post-purchase evaluation. According to a Deloitte report consumers who utilize social media are four times more likely to make a purchase than those who don't. In addition, 29% are more inclined to make a purchase the same day.

Lastly, it is important to note that there are generational differences in how technology is utilized and received by today's consumer. For example, 47% of millennials are influenced by social media as opposed to 19% of other age groups. Retailers use this information to adapt their marketing strategies based on the target demographics of the products they are selling.

The Socially Conscious Consumer

Consumers have tremendous power to drive trends of which products are available and how those goods are produced. More and more consumers are questioning the political and environmental impact of their purchases which has lead to the rise of the socially conscious consumer. For evidence of this phenomenon, one need look no further than the recent explosion of organic products on the market. Over the last 15 years, organic products have gone from being a little-known niche market to one of the fastest growing, increasingly mainstream sectors in American Agriculture. According to a 2016 press release issued by the United States Department of Agriculture (USDA), the number of certified organic operations in the United States has increased by almost 300% since the agency began keeping records in 2002 with most years seeing double-digit growth in the organics sector. Significantly, growth in demand for organic products continued throughout the economic recession, suggesting that more and more shoppers are convinced that the health and environmental benefits associated with organic products outweigh the higher cost.

Similar growth has been observed in demand for "eco-friendly" or "green" products, particularly among millennials. Citing a 2015 Nielsen study, Michael Hozik of the *Georgetown Environmental Law Review* states, "Just over the span of one year, millennials willing to pay more for products and services from companies committed to positive environmental and social change increased from 55% in 2014 to 72% in 2015." In response to increased demand, the number of applications for eco-friendly labels doubled between 2006 and 2007 and the selection of eco-friendly products made available by retailers increased by 73% from 2009 to 2010. Household names like Walmart, Nestle, Proctor & Gamble, Sony, and many more have created ambitious targets for reducing greenhouse gas emissions and pledged to increase the sustainability of their supply chains. Big name brands are increasingly recognizing the necessity of wooing the growing number of eco-conscious shoppers while also recognizing this trend may cut into their profit margins.

Summary

Above are a few key challenges in detail. However, as I stated before there are numerous others as well. Watch the video below to gain an understanding of a few other challenges that have a significant impact on today's retailer. Consider how these are impacting you now as a consumer and an industry professional. What else do you believe could be some other notable challenges in the future and what actions do you believe today's retailer could take to work through these challenges and stay more competitive in today's environment as well as that of the future?

Watch this video online: https://www.youtube.com/embed/liXy2gGQ_x8?feature=oembed

Additional Resources

- Retail's Biggest Challenges
- What are the Top Challenges Facing Retailers in 20108?
- The State of The Retail Supply Chain— Essential Findings of the Fourth Annual Report : Specifically the section titled "On the Horizon – Issues & Challenges"on page 15.

RETAIL MANAGEMENT REQUIREMENTS

LEARNING OUTCOME

- Categorize the general role requirements of a retail manager

Middle-Management Roles and Functions

As discussed earlier in this module many retail manager positions fall into the Middle-Management level. Middle-level managers can include general managers, branch managers, and department managers. They are accountable to the top-level management for their department's function, and they devote more time to organizational and Middle managers' roles may include several tasks depending on their department. Some of their functions are as follows:

- Designing and implementing effective group work and information systems
- Defining and monitoring group-level performance indicators
- Diagnosing and resolving problems within and among work groups
- Designing and implementing reward systems
- Supporting cooperative behavior
- Reporting performance statistics up the chain of command and, when applicable, recommending strategic changes

Because middle managers work with both top-level managers and first-level managers, middle managers tend to have excellent interpersonal skills relating to communication, motivation, and mentoring. Leadership skills are also important in delegating tasks to first-level managers.

Middle management may be reduced in organizations as a result of reorganization. Such changes include downsizing, 'delayering' (reducing the number of management levels), and outsourcing. The changes may occur in an effort to reduce costs (as middle management is commonly paid more than junior staff) or to make the organization flatter, which empowers employees, leaving the organization more innovative and flexible.

Front Line Management

At the front line, managers are often highly skilled and even functional specialists. A front line manager is best positioned when they focus on controlling and directing specific employees (think in terms of supervisors, team leaders, line managers, and project managers).

Skill Sets

A front line manager needs to have two distinctive skill sets: the interpersonal skills to manage people as well as the technical expertise to be among the front lines actively executing functional tasks. As a result, frontline managers are often highly valuable team members with the versatility to contribute in various ways.

Core skill sets for frontline managers can change depending on what function they are overseeing. However, on the interpersonal side they should be effective at:

- Communicating
- Observing and actively listening
- Giving and receiving feedback
- Prioritizing
- Aligning resources
- Organizing processes and tasks

Responsibilities

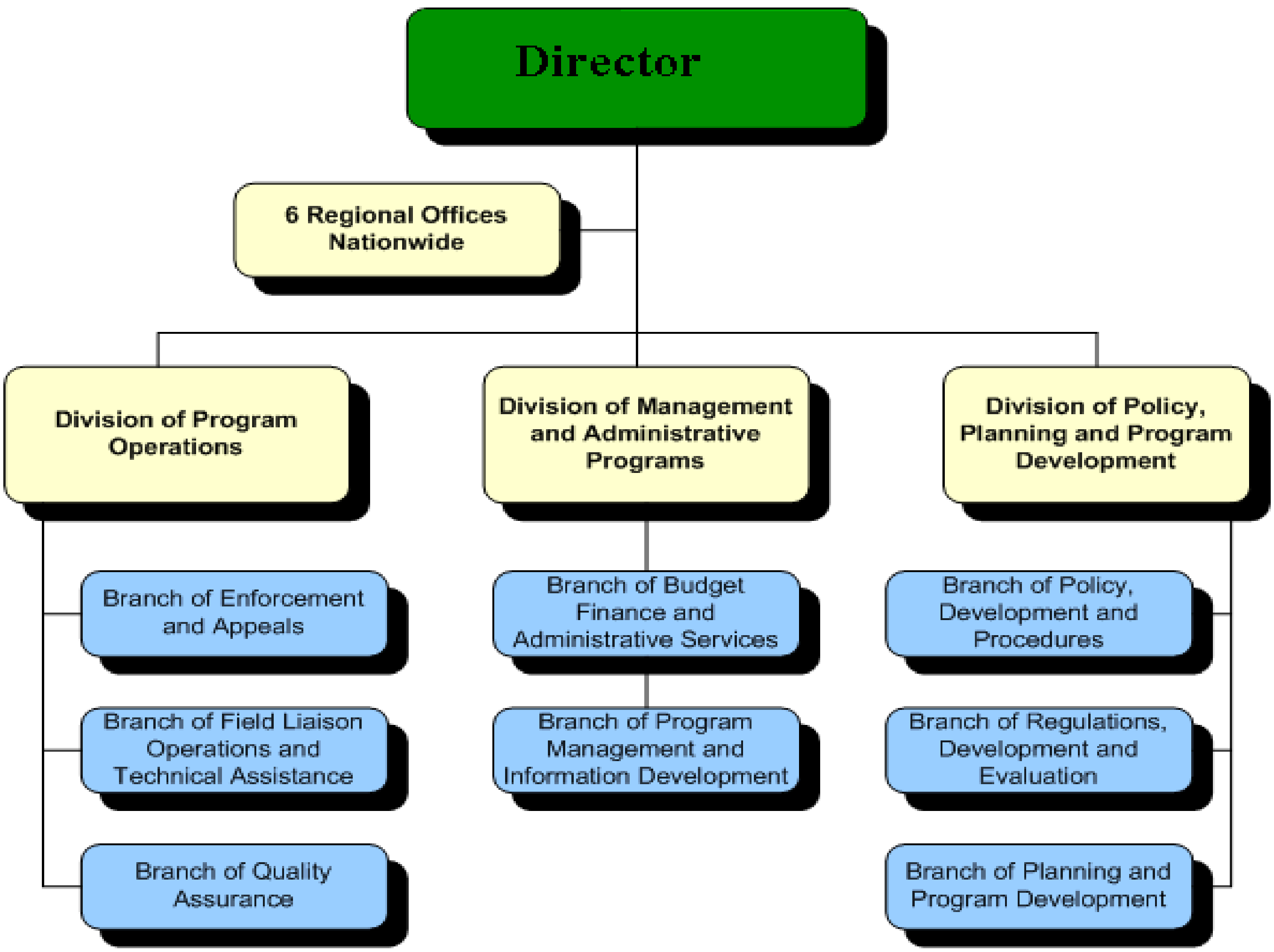
Responsibilities of a frontline manager will therefore come in two flavors. The first is the expertise required to do whatever it is they are managing. If we are talking about an accounting manager, they must be able to balance the books and understand enough of everyone's specific function to fill the gaps. If it is a frontline manager on an automobile manufacturing facility, the manager should be aware of how to run most of the machines and how to assess the productivity of different positions (ideally from experience).

On the managerial side, frontline managers are often tasked with hiring, assessing performance, providing feedback, delegating functional tasks, identifying gaps, maximizing efficiency, scheduling, and aligning teams. As the primary point of contact for most employees, frontline managers must be careful listeners capable of understanding employee needs, removing blockers, and optimizing performance.

Functional Management

Besides the heads of a firm's product and/or geographic units, the company's top management team typically consists of several functional heads (such as the chief financial officer, the chief operating officer, and the chief strategy officer). A functional manager is a person who has management authority over an organizational unit—such as a department—within a business, company, or other organization. Functional managers have

ongoing responsibilities and are not usually directly affiliated with project teams, other than ensuring that goals and objectives are aligned with the organization's overall strategy and vision.



Functional vs. general management: This chart shows a particular organizational hierarchy employing both general and functional management. Each functional manager is in control of a particular area of expertise—e.g., operations or policy and planning—and the general manager supervises all the functional managers.

General Management

General management focuses on the entire business as a whole. General management duties and responsibilities include formulating policies, managing daily operations, and planning the use of materials and human resources. However, general managers are too diverse and broad in scope to be classified in any one functional area of management or administration such as personnel, purchasing, or administrative services.

General managers include owners and managers who head small-business establishments with duties that are primarily managerial. Most commonly, the term general manager refers to any executive who has overall responsibility for managing both the revenue and cost elements of a company's income statement. This means that a general manager usually oversees most or all of the firm's marketing and sales functions, as well as the day-to-day operations of the business. Frequently, the general manager is responsible for effective planning, delegating, coordinating, staffing, organizing, and decision making to attain profitable results for an organization.While both general and functional management involve similar skills (interpersonal skills, communication, multitasking, etc.), the critical difference is that a functional manager often "zooms in" to one particular aspect of a broader operational paradigm. The general manager must be more of a jack-of-all-trades, understanding enough about various different gears in the machine to ensure it is running properly.

Mintzberg's Management Roles

Mintzberg defined ten management roles within three categories: interpersonal, informational, and decisional. Management is incorporated into every aspect of an organization and involves different roles and responsibilities. Henry Mintzberg (1973), the Cleghorn Professor of Management Studies at McGill University, defined ten management roles within three categories: interpersonal, informational, and decisional.

Each of the three categories embraces the different roles.

Interpersonal

1. *Figurehead:* symbolic head; performs a number of routine duties of a legal or social nature.
2. *Leader:* motivates and activates subordinates; performs staffing, training, and associated duties.
3. *Liaison:* maintains a self-developed network of outside contacts and informers who provide favors and information.

Informational

1. *Mentor:* seeks and receives a wide variety of special information (much of it current) to develop a thorough understanding of the organization and environment; emerges as the nerve center of internal and external information for the organization.
2. *Disseminator:* transmits information received from outsiders or from other subordinates to members of the organization. Some information is factual; some involves interpretation and integration of diverse value positions of organizational influences. Disseminating what is of value, and how, is a critical informational role.
3. *Spokesman:* transmits information (plans, policies, results, etc.) within and outside of the organization; serves as an expert on the organization's industry.

Decisional

1. *Entrepreneur:* searches the organization and its environment and initiates improvement projects to bring about change; supervises design of certain projects as well.
2. *Disturbance Handler:* takes corrective action when the organization faces important, unexpected disturbances.
3. *Resource Allocator:* allocates the organization's resources; makes or approves of all significant organizational decisions.
4. *Negotiator:* represents the organization at major negotiations.

A manager's job is never static; it is always dynamic. At any given time, a manager may carry out some combination of these roles to varying degrees, from none of the time to 100 percent of the time. Throughout an individual's working life, a person may hold various management positions that call upon different roles.

No one person can be all things to all people. While these ten roles are highly useful in framing organizational leadership, to expect one person to fill each role in a large organization is impractical. Instead, astute hiring managers will hire people with one or two specific roles in mind, thereby creating a team of managers capable of handling the wide variety of challenges in the business world today.

Defining Agendas

An agenda, particularly from the perspective of an organization or business, is loosely defined as a organized approach toward accomplishing a series of objectives or discussing a series of points. Agendas are most

commonly used in short-term settings, such as meetings or a given week's work plans; however, they can also be used as a longer-term strategic planning component.

Business Application

In business, agendas are used to ensure everyone knows what will be discussed in meetings. Agendas should be distributed well before the meeting or discussion to ensure individuals attending have time to prepare their discussion points and to familiarize themselves with what others will be discussing. Reading the agenda in advance ensures that the overarching goals of a given meeting are clear and understood by all participants prior to the discussion.

Agendas may also be used as a means of highlighting current progress and projecting future progress. This type of agenda provides a timeline and tracking mechanisms for participants involved in a given project and may or may not require onsite meetings. Agendas showing project progress are often used by contractors and those in the field of project management.

Keeping Minutes

Agendas are also used broadly in the political and public domain, where meetings held by public institutions, NGOs, or political groups are approached and organized via a given agenda. Public companies have a more important relationship with agendas than private companies, as they are usually required to record meeting minutes. These minutes are essentially a verbatim record of what was discussed and are made available for public viewing and consideration. As these discussions are accessible by any and all stakeholders, the outline and preparation of a valid and relevant agenda is of particularly high importance.

Relevance to Management

Skilled managers construct and implement agendas in organizational settings. Building an agenda requires broad familiarity with all critical components of a given department, project, or organizational objective. Creating a relevant agenda and distributing it to concerned parties in a timely fashion requires organizational ability, communication skills (including the ability to write clearly and concisely), and strategic know-how (knowing what to discuss and in what order). Managers must also be skilled in controlling the pace, tone, and trajectory of discussions at meetings. Agendas are an excellent tool for organizing thoughts and leading discussion.

Following agendas requires a similar set of managerial skills. Ensuring follow-through and keeping employees on task and on schedule requires an ability to multitask—to oversee various aspects of a given operational area simultaneously. Good managers can balance the various interests, operations, and technical skills of a given team to ensure the objectives and timelines set forth in the agenda are carried out.

SKILLS OF A RETAIL MANAGER

LEARNING OUTCOMES

- Discuss the most valuable skills for a retail manager to possess

Robert Katz identifies three critical skill sets for successful management professionals: technical skills, interpersonal (or human) skills, and conceptual skills. Successful managers must possess certain technical skills that assist them in optimizing managerial performance. While these three broad skill categories encompass a wide spectrum of capabilities, each category describes the way in which these skills interact with management at various levels.

Technical Skills of Successful Managers

Defining Technical Skills

Of the three skill sets identified by Katz, technical skills are the broadest, most easily defined category. A technical skill is defined as a learned capacity in just about any given field of work, study, or even play. For example, the quarterback of a football team must know how to plant his feet and how to position his arm for accuracy and distance—both technical skills. A mechanic, meanwhile, needs to be able to deconstruct and reconstruct an engine, to employ various machinery (lifts, computer scanning equipment, etc.), and to install a muffler.

Front-Line Managers’ Technical Skills

Managers also need a broad range of technical know-how. All industries need management, and management must exist at various organizational levels. Front-line managers represent a substantial part of management who must use their technical skills daily. Front-line managers must communicate up the chain of command while still speaking the language of the workers who are executing the hands-on components of the industry. A technical skill for a front-line manager might include a working understanding of a piece of equipment: the manager must be able to coach the employee on its operation, as well as communicate to upper managers the basic functions of the machinery.

Technical Skills in Upper Management

In addition to front-line managers, managers in other corporate roles and at higher levels require critical technical skills. These can include office-based competencies such as typing, programming, website maintenance, writing, giving presentations, and using software such as Microsoft Office or Adobe. Office environments require a complex set of communicative, technological, and data-organization skills in order to optimize managerial performance.

Successful managers in an organization must therefore learn to use the technological assets at their disposal, collecting critical information and data to communicate upward for strategic planning. An example of information management is a mid-level manager in the automotive industry who is responsible for recognizing global marketing potential. This individual must be capable of realizing the legal, demographic, social, technological, and economic considerations of entering a market; the manager will use effective research and delegation skills and also consolidate the information into a useful presentation using technological and communicative skills.

Katz believes that the higher up in the organization an individual rises, the more conceptual skills (and fewer technical skills) are necessary. Senior managers need fewer technical skills because strategic decision-making is inherently more conceptual; mid- and lower-level skills such as data collection, assessment, and discussion are all more technical. Even so, all disciplines of management require a broad range of skill sets for effective business processes to occur.

EXAMPLE

A technical skill for a front-line manager might include a working understanding of a piece of equipment: the manager must be able to coach the employee on its operation, as well as communicate to upper managers the basic functions of the machinery.

Conceptual Skills of Successful Managers

Conceptual skills revolve around generating ideas through creative intuitions and a comprehensive understanding of a given context.

Defining Conceptual Thinking

Conceptual skills represent one of the three skill sets identified by Robert Katz as critical to managerial success in an organization. While each skill set is useful in different circumstances, conceptual skills tend to be most relevant in upper-level thinking and broad strategic situations (as opposed to lower-level and line management). As a result, conceptual skills are often viewed as critical success factors for upper managerial functions.

Conceptual thinking is difficult to define but can generally be considered as the ability to formulate ideas or mental abstractions in the mind. Conceptual skills primarily revolve around generating ideas, utilizing a combination of creative intuitions and a comprehensive understanding of a given context (i.e., incumbent ‘s industry, organizational mission and objectives, competitive dynamics, etc.). When combined with a variety of information, as well as a degree of creativity, conceptual thinking results in new ideas, unique strategies, and differentiation.

Conceptual Skills in Upper Management

While all levels of management benefit from conceptual thinking, upper management spends the most time within this frame of mind (as opposed to thinking more technically—looking at and working with the detailed elements of a given operation or business process). Upper management is largely tasked with identifying and drafting a strategy for the broader operational and competitive approach of an organization.

This strategic planning includes generating organizational values, policies, mission statements, ethics, procedures, and objectives. Creating this complex mix of concepts to use as an organizational foundation requires a great number of conceptual skills—formulating concepts and predicting their effects in an organizational setting.

Conceptual Skills in Lower and Middle Management

While upper management may use conceptual skills the most, middle managers and lower managers must also both understand and participate in the generation of company objectives and values. Of particular importance are the abilities to communicate these critical concepts to subordinates and the ability to gather useful information to convey to upper management so that the concepts can evolve.

Collecting the results of conceptual thinking represent a feedback loop. Conceptual skills are important in empowering managers in all levels of an organization to observe the operations of an organization and frame them conceptually as an aspect of that organization’s strategy, objectives, and policies. Conceptual thinking allows for accurate and timely feedback and organizational adaptability.

Interpersonal Skills of Successful Managers

A manager must be both analytical and personable when it comes to managing time, resources, and personnel.

Leadership

Over the years, the common definition of management has become less specific, as managerial functions can include staffing, directing, and reporting. Modern companies have fewer layers of management, as these companies instead rely on the delegation of responsibilities and authority to achieve goals. As a result, businesses often speak of leading or guiding, people rather than giving instructions for every action. Leading people represents a central component of human skills.

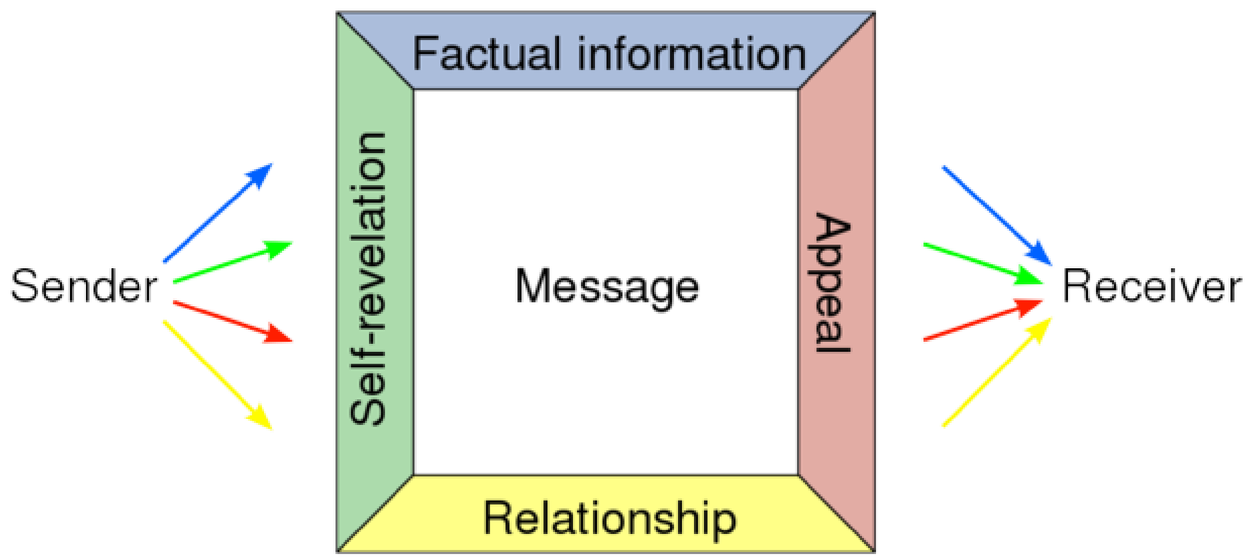
Under this definition of management, leadership is actually a subcategory of management. Management characterizes the process of leading and directing all or part of an organization, often a business, through the deployment and manipulation of resources (human, financial, material, intellectual or intangible).

Interpersonal skills differentiate a manager from a leader. A manager is simply manipulating resources to achieve a given objective, while a leader appeals to the human side of employees to generate creativity and motivation.

These concepts of "manager" and "leader" can be distinguished within a team setting. A team leader who is unconcerned with team members' needs or who has a personal agenda that is perceived to be more important than the team's goals is more of a manager than a leader and may alienate team members. Conversely, team leaders who are admired and loyally followed are those who show concern for the team members as individuals with real needs and who place their team above their own personal agendas.

Communication

Realistically, most organizations need leaders who can view their teams analytically and objectively, evaluating inefficiencies and making unpopular choices. However, it is misleading to think that a manager has to be distant from or disliked by subordinates to execute these responsibilities. Creating a healthy environment conducive to development, criticism, and higher degrees of achievement simply requires strong human skills, particularly in the realm of communication.



***The "four sides" communication model**: This model provides a theoretical framework for the act of communicating, which lies at the heart of effective management. A sender communicating a message to a receiver is not simply transmitting factual information; self-image, context, charisma, and the relationship between the two people also impact the reception of the message.*

Interpersonal skills and communication skills lie at the center of human-based managerial considerations. Good managers understand not only what they are trying to say but also the broader context and implications of saying it. Empathy, self-reflection, situational awareness, and charisma all play integral roles in communicating effectively and positively.

Experiential Learning for Managers

Defining Experiential Learning

Aristotle once said, “For the things we have to learn before we can do them, we learn by doing them.” Experiential learning is the process of making meaning from direct experience. The experience can be staged or left unstructured. David A. Kolb, an American educational theorist, helped to popularize the idea of experiential learning, drawing heavily on the work of John Dewey, Kurt Lewin, and Jean Piaget. Kolb’s work on experiential learning has contributed greatly to expanding the philosophy of experiential education.

The Process

Experiential learning involves learning through reflection on doing; it is often contrasted with rote or didactic learning. Experiential learning is related to—though not fully synonymous with—experiential education, action learning, adventure learning, free-choice learning, cooperative learning, and service learning.

Experiential learning focuses on the learning *process* for the individual (unlike experiential education, which focuses on the transaction between teachers and students). An example of experiential learning is going to the zoo and observing and interacting with the zoo environment, as opposed to reading about animals in a book. It is the difference between firsthand knowledge and hearing or reading about other people’s experiences.

Experiential learning does not require a teacher; instead, it draws solely upon the process of making meaning based on direct individual experience. According to Kolb, knowledge is continuously gained through both personal and environmental experiences. While gaining knowledge is an inherent process that occurs naturally, certain elements must be present for a genuine learning experience to occur. Kolb states that to gain genuine knowledge from an experience requires the following abilities:

- the learner must be willing to be actively involved in the experience
- the learner must be able to reflect on the experience
- the learner must possess and use analytic skills to conceptualize the experience
- the learner must possess decision-making and problem-solving skills in order to use the new ideas gained from the experience

Experiential learning: The process of experiential learning is cyclical, with no required starting or end point. Learning through experiences requires observation, conceptualization, and experimentation to engage the mind.

Experiential learning can be a highly effective way to learn new skills, new attitudes, or even entirely new ways of thinking. It engages the learner on a more personal level by addressing the needs and wants of the individual. It requires initiative and the ability to self-evaluate. To be truly effective, it should span goal-setting, experimenting and observing, reviewing, and planning future action.

Role in Business

Experiential learning plays an important role in business learning and managerial training. It is an integral component to many training programs, as it engages both the intellect and the senses much more comprehensively than lectures, books, or videos. For example, a computer simulation of change management can be a useful application of experiential learning, as can a board game simulating operational efficiency in a factory.

Business skills are inherently intangible, evading the capture of most textbooks without external materials to create context. Management spans a wide variety of personal capabilities and requires different skills based upon the specific role and context, making it a challenging subject to teach. Motivating others and navigating a complex organizational structure are not skills individuals can learn via textbooks; experiential learning in business may therefore serve a useful focal point for study.

This principle is particularly noticeable in business programs that utilize a cohort or group-based educational structure for students. These programs enable students to select leaders and actively practice delegation, communication, and multitasking as they work on projects. Case studies offer another effective method of capturing these complex managerial skill sets in a real-life setting. Cases place students in the shoes of managers and allow them to experience and apply the variety of skills and considerations necessary for success in a specific situation and industry.

INTRODUCTION TO STRATEGIC PLANNING IN RETAIL MANAGEMENT

What you'll learn to do: Explain the concept of strategic planning within the retail management decision process

Even the best laid out plans can fail with the absence of a well defined roadmap. Strategy is a vital component of any retail organization for several key reasons. First, it allows you to understand your company as well as your history, your company's history, and your overall industry. A key component of strategy is to write them down and incorporate them into the policy, mission statement, and vision of the company. You might have heard the phrase: "The best-laid plans of mice and men often go awry." However, when things go awry the company can return to the initial strategy of the gap they are trying to fulfill within the marketplace. This allows them to understand the competitive advantage they have in the industry as well. In addition, it would allow them to understand the weaknesses and strengths they possess that would hinder or help growth within the organization. Lastly, it would also help them focus on whether or not they are placing efforts and resources on those areas that will drive productivity and profitability.

Before we begin let's take a look at Tesco, profit wise it is the third largest retailer, and how retail strategy benefits them. Imagine the scope of a business with stores in seven countries. Why is strategy imperative in a business this large? We will address these questions in our next few modules.

Watch this video online: https://www.youtube.com/embed/puFkfMcJW-Y?feature=oembed

MICROENVIRONMENT VS. MACROENVIRONMENT

LEARNING OUTCOME

- Differentiate between macroenvironment and microenvironment considerations in strategic planning

Business (or Strategic) management is the art, science, and craft of formulating, implementing and evaluating decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs.

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) and PEST analysis (Political, Economic, Social, and Technological analysis) or STEER analysis involving Socio-cultural, Technological, Economic, Ecological, and Regulatory factors and EPISTELS (Environment, Political, Informatic, Social, Technological, Economic, Legal and Spiritual)

Strategic planning is the formal consideration of an organization's future course. All strategic planning deals with at least one of three key questions:

1. "What do we do?"
2. "For whom do we do it?"
3. "How do we excel?"

In business strategic planning, the third question is better phrased "How can we beat or avoid competition?". (Note: (Bradford and Duncan,*Simplified Strategic Planning.* Chandler House, 2000. page 1).) In many organizations, this is viewed as a process for determining where an organization is going over the next year or more—typically 3 to 5 years, although some extend their vision to 20 years. In order to determine where it is going, the organization needs to know exactly where it stands, then determine where it wants to go and how it will get there. The resulting document is called the "strategic plan".

Strategic planning may also be a tool for effectively plotting the direction of a company; however, strategic planning itself cannot foretell exactly how the market will evolve and what issues will surface in the coming days in order to plan your organizational strategy. Therefore, strategic innovation and tinkering with the 'strategic plan' have to be a cornerstone strategy for an organization to survive the turbulent business climate.

Strategic management seeks to coordinate and integrate the activities of the various functional areas of a business in order to achieve long-term organizational objectives. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives.

No discussion of strategic planning can ignore the micro and macro factors that are relevant in the success and possible failure of the retail business. The **business environment** is a marketing term and refers to factors and forces that affect a firm's ability to build and maintain successful customer relationships. The three levels of the environment are. We will focus on micro and macro factors in this module:

1. Micro (External) environment – small forces within the company that affect its ability to serve its customers.
2. Internal environment – can be controlled, however, it can't influence an external environment.
3. Macro (external) environment – larger societal forces that affect the microenvironment.

Micro Environmental Factors

Micro environments in retail is anything in the immediate environment including suppliers, customers, competitors, and stakeholders. Any government and other regulating body can be thought of as a stakeholder. Typically the micro environment is local to the business and any business owner should be well aware of those factors affecting the retail business.

Macro Environmental Factors

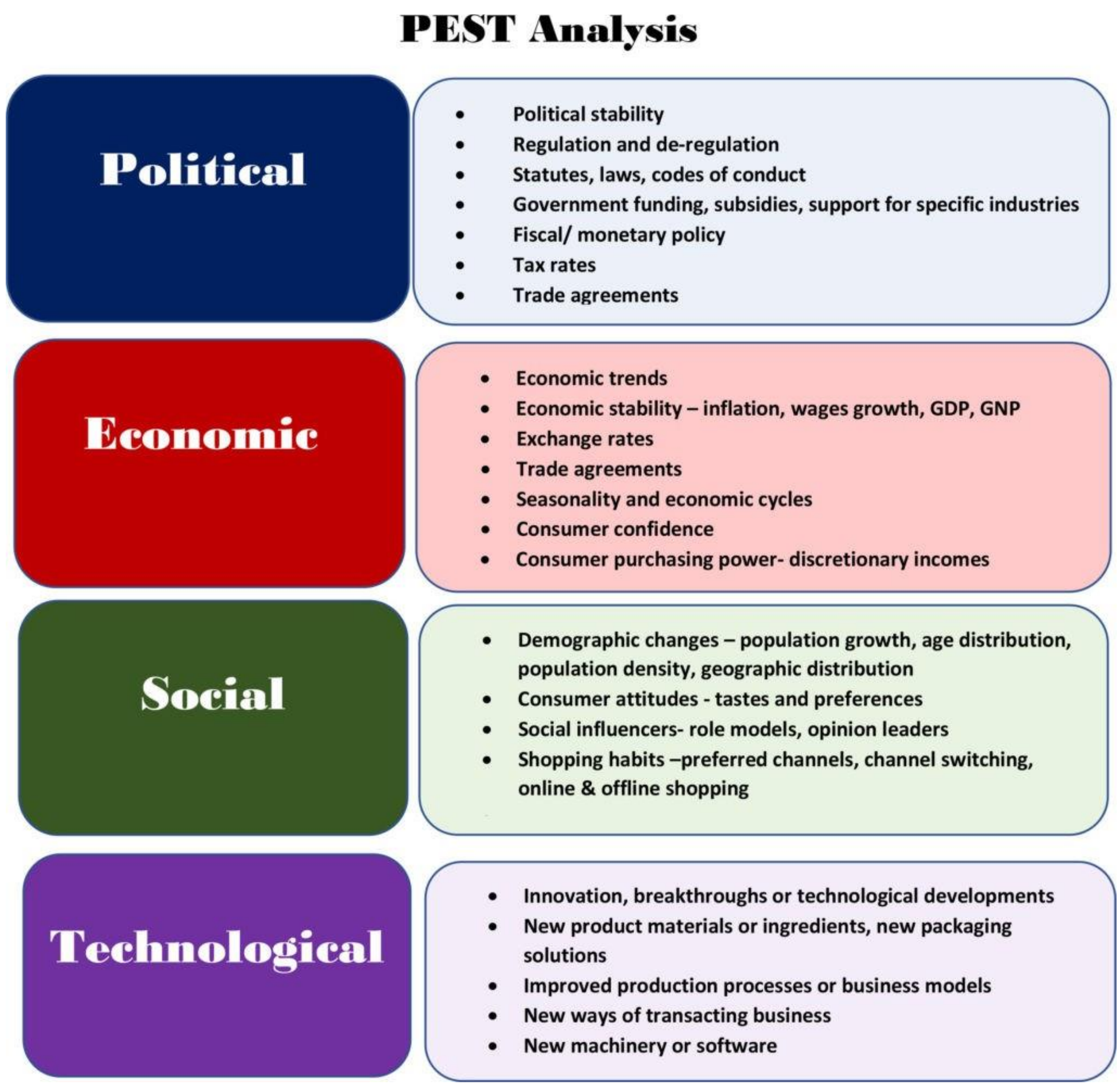
Macro environments are often outside of the retailer's control and are typically of a larger scale and are usually of an economic and industry viewpoint.

SWOT Analysis

In understanding micro and macro environments a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis is commonly used in retail. Strengths and weaknesses are those internal factors impacting an organization while opportunities and threats are external factors that are outside of the organization's control. Look at these slides reporting on a SWOT analysis of GAP Inc then let's walk through a SWOT analysis for the GAP below.

Some of the positive internal attributes are franchising opportunities and global brand recognition. Strengths answer question such as: What value do we bring to the customer? What do we do well? What is making a difference? Some of the weaknesses include a dependence on outside vendors as well as long term debt. They also have a dependence on an older consumer. Weaknesses address questions such as: What needs improving? What isn't working? What do our customers dislike? In looking at those external opportunity factors affecting the Gap that are positive you can see they have a market for plus size women's apparel and they are growing the online business. There is also an opportunity for growth in Asia. Opportunities address the following questions: What should be changed? What should the company start or stop doing? Finally, threats are those external factors that can't be controlled but are still a consideration. The Gap has strong competition, slow economic recovery, and increased labor costs. Threats answer the following questions: What are the threats to the business? Are there any economic, political, or customer trends? Are there any financial threats such as cost or debt?

In addition, PEST (Political, Economic, Social, and Technological) as well as Porter's 5-Forces analysis is also used as a way to understand new competition, the threat of new competition, the bargaining power of suppliers and customers, and the level of competition.



Additional Resources

- A PEST to Infest your Analysis

STRATEGIC PLANNING IN RETAIL

LEARNING OUTCOME

- Classify the general steps of strategic planning in retail

In most organizations, "strategic planning" is an annual process, typically covering just the year ahead. Occasionally, organizations may look at a practical plan which stretches three or more years ahead. To be most effective, the plan has to be formalized, usually in written form, as a formal "marketing plan."
The essence of the strategic planning process is that it moves from a general goal to the specific steps to reach that goal; from the overall objectives of the organization down to the individual objective (goal) action plan for a part of one marketing program. It is also an interactive process, so that the draft output of each stage is checked to see what impact it has on the earlier stages and is amended as necessary. Some elements of the process may be continuous and others may be executed as discrete projects with a definitive start and end during a period.
Strategic planning provides multiple stages for inputs for strategic thinking, which guides the actual strategy formation. The end result is the organization's strategy, including a diagnosis of the environment and competitive situation, a guiding policy on what the organization intends to accomplish, and key initiatives or action plans for achieving the guiding policy.
Michael Porter wrote in 1980 that formulation of competitive strategy includes consideration of four key elements:

1. Company strengths and weaknesses
2. Personal values of the key implementers (i.e., management and the board)
3. Industry opportunities and threats
4. Broader societal expectations

The first two elements relate to factors internal to the company (i.e., the internal environment), while the latter two relate to factors external to the company (i.e., the external environment). These elements are considered throughout the strategic planning process.

For example, many retailers are trying to respond to customer migration from brick-and-mortar stores to online retailers. What situational, monetary, or product mix is drawing customers away from traditional stores? Imagine a local grocery store chain is trying to compete with Amazon pantry. The local store decides their goal is venture into the world of e-commerce by integrating an online website for customers to order products online, but can pick up their orders at the store. How did this local chain come to this solution and how would they go about it? Here is a quick look at the steps in the strategic retail planning process.

1. Define the business mission
2. Conduct a situation audit. This can include a market attractiveness analysis, competitor analysis, self-analysis
3. Identify strategic opportunities
4. Evaluate strategic alternatives
5. Establish specific objectives and allocate resources
6. Develop a retail mix to implement strategy
7. Evaluate performance and make adjustments

Here is a video that walks you through the first five steps of the strategic retail planning process. Afterwards we will discuss how to develop the retail mix to implement the retail strategy as well as evaluating performance.

Watch this video online: https://www.youtube.com/embed/jVRIWeZP52k?feature=oembed

THE RETAIL MIX

LEARNING OUTCOMES

- Explain the retail mix

So how do we take our retail planning strategy and put it into an actionable plan? Part of the success of any retailer is taking that strategic plan and breaking it apart into actionable and meaningful steps that will lead to success. A well thought out and planned retail mix provides the retailer with a focused position and helps differentiate them from the competition. A retail mix, defined, is the marketing plan put in place to address key factors such as location, price, personnel, services, and goods. Retail Mix is also referred to as the “6 P’s”.

One important thing to keep in mind is that any competitive advantages you have in your strategy should help form your retail mix. In addition, the retail mix should always have the target market in mind. The retail mix will differ based on the store and the type of product offered to the customer.

Discussing and evaluating your retail mix in the organization offers a number of benefits. First, you are addressing the needs of your target market. In essence it forces the retailer to make the customer top of mind and foremost in all strategy decisions. It also allows for a business planning strategy within the retailer. By approaching all six components the retailer is ensuring they are able to meet the needs of the customer using all these components. Lastly, it allows the retailer to respond to competition. For example, a key competitor for JCPenney is Kohl’s. If Kohl’s drops prices a national brand such as Levi’s, JCPenney might follow suit.

Lets now take a look at the components of the **retail mix** that are ultimately the pieces of the retailer’s strategy.

1. Price

What is my pricing strategy? What is my markup strategy and how does that affect my overall retail price? You must make sure you calculate your retail price based on the markup you receive and not the costs involved. You also want to think about profitability and relate this back to the goals of your area as well as your organization.

2. Promotion

What promotional tools will you use to influence the consumer’s purchase decision and, overall, their intention to purchase? This is where you also want to make sure you include a budget that shows where resources are allocated as well as a time table for the promotional activities. Remember to include specific examples of your proposed promotional activities. Some examples include online promotions, print advertising, and any television advertising.

3. Place

What are the hours of operation for your store? How many employees do you need and when do you need them? This is where you can also include a general description of the responsibilities of each associate along with some type of detailed info on the organization’s structure. This could also be dependent upon the area in which you are located as well as the needs of the customer.

4. Product

What type of product do you intend to carry? What is the depth (how much you will carry of an item) as well as the breadth (number of SKUs) you will carry in your assortment? What is your anticipated turn as well as inventory levels? Later we will discuss in more detail the importance of inventory turnover and how it contributes to profitability. This is where you want to make sure you have adequate inventory levels to meet customer demand. Too much product could lead to excessive markdowns which deteriorates profitability while too little desired merchandise might lead to missed sales opportunities. Does your product meet your customer's needs?

5. Presentation

Will you have a free-standing location? Will you be located in the mall? How is the location you have chosen a good fit for your target market? It is during this time you will also want to provide a thorough trade analysis that shows the population in the area and how they are a good fit for your business.

6. Store Image

What is the layout of your store? What are the graphics that set your store apart? What does the signage look like inside and outside of your store? These are all key elements you want to consider.

For the final segment of this section let's take a look at how we the retailer can take the one element of the mix (product) and transform it into a customer experience as well as why this is important.

Watch this video online: https://www.youtube.com/embed/7ow1o3feSlE?feature=oembed

THE RETAILING CONCEPT

LEARNING OUTCOMES

- Explain the retailing concept

The Retailing Concept

Now that you have a better understanding of the retail marketing strategy and how the retail mix supports the strategy let's round out our Introduction to Retailing by discussing the **Retailing Concept.**

There are most certainly a number of environmental, political, economic, and social factors that affect all segments of the retailing industry. In addition, there are also other factors such as customer demand, new technologies, and competition that impact the industry as well. The retailing concept is an idea that examines the evolution of the and transformation of the retail life cycle. This concept was first introduced by Professor McNair from Harvard University.

The retailing concept suggests new retailers will typical begin with low-cost and low-margin operations. The low prices of these retailers are generally due to the low cost and often times cost cutting does attract competition (Stage 1). They will later evolve into a high price and high service operation once they gain more experience in the market and enlarge the customer base. The intent at this point is to increase market share (Stage 2). In the third stage the company is established and the company is able to expand at a moderate pace and attract more customers. At this stage competitors also begin to think about how they can enter the market as well. In stage 4 the retailer is highly established with better products, services, and locations most likely. The cost, and therefore prices, become higher for the retailer in this stage. In this stage competitors can now try to penetrate the market in stage 1.

Let's look at an example of how the retailing concept works using Barnes & Noble as an example.

Stage 1: Barnes & Noble began with a variety of books in one location at a low cost.

Stage 2: Barnes & Noble expanded to various locations thus increasing sales, brand image, value, and profit.

Stage 3: As time progressed Barnes & Noble established themselves, opened even more stores, and saw greater profits. Smaller shops closed down and an increasing number of customers came to Barnes & Noble.

Stage 4: Although Barnes & Noble increased presence in the overall retail landscape they still mostly had traditional brick and mortar stores. Amazon entered the market allowing customers to browse the book selection and have it delivered right to their door step! Consider how much in sales Barnes & Noble might have lost over time due to Amazon's entry to the market!

Can you see how the retailing concept is an evolution? Take a few moments before we move on and see if you can provide an example using your favorite retailer we discussed initially.

PUTTING IT TOGETHER: INTRODUCTION TO RETAILING

Do you remember identifying your favorite retailer on the first page? Hopefully you can now think about them in a different way or give you some insight as to why your favorite pair of jeans in your size are sold out at your local GAP? If you will recall we discussed inventory as a key challenge in retail. Adequate inventory levels are imperative to the success of any retailer. Too much inventory leads to unproductive sales and lost margin due to markdowns. Inventory that doesn't support customer demand might mean lost sales and a potential negative image of the retailer from the customer's point of view.

What about the time it takes for the item you ordered online, or even in store, to make it to your home? This is about the supply chain and how effective it is within the retail chain. What are your thoughts at this time regarding the supply chain of your favorite retailer? Lastly, technology has transformed the industry in ways that we probably couldn't imagine as the industry has transformed by leaps and bounds in the last 60 years. Will the concepts you learn shape what career you choose? What will be your contributions to this changing field now and in the future?

Let's take one more look at the store of the future. Think about how your favorite store might transform itself into the store of the future.

Watch this video online: https://www.youtube.com/embed/IKouQFI1aM4?feature=oembed

As retail leaders make forward progress and adapt to changes in the industry, there is also an increased emphasis on maintaining awareness of retail news and trends. If you are a retail professional, you should also be aware of what's happening on a local and regional level. The following list includes some commonly used resources for finding this information. Many of these contain weekly subscription lists that are generally free. This is a great start to expanding your knowledge of retail news

- National Retail Federation (NRF): https://www.nrf.com
- NRF & Stores Magazine: https://nrf.com/connect-us/stores-magazine
- Retail Week: https://www.retail-week.com/
- Research websites: http://www.pewresearch.org/
- Retail Trade Publications: https://warrington.ufl.edu/centers/retailcenter/docs/TeachRetail_RetailTradePublications.pdf
- Top 25 Retail Industry Sites: https://blog.vendhq.com/post/64901827961/top-25-retail-industry-websites
- Chain Store Age: http://www.chainstoreage.com/
- Retail Dive: https://www.retaildive.com/

MODULE 2: RETAIL ENVIRONMENT ANALYSIS

WHY IT MATTERS: RETAIL ENVIRONMENTAL ANALYSIS

Why evaluate different types of retail institutions?

Think about your local grocery store or supermarket. You probably enter into the produce section or perhaps the deli or bakery departments. The milk, butter, and meat sections are probably located at the back of the store, while the center of the store is filled with several rows of packaged items like soup, cereal, and peanut butter. There might be displays of chips, cake mixes, or seasonal items at the end of each aisle. The frozen foods are probably relegated to one or two aisles, either in open freezer chests or behind closed freezer doors. The cash registers are at the front of the store, along with displays of soft drinks, candy, and magazines.

Regardless of where you live and where you shop, it's likely that the store you imagine is very similar to the one described and those imagined by others throughout the country. That's because the retail grocery industry has not changed much since the 1950s when the supermarket concept first flourished in growing suburban America. There have been innovations in technology, like UPC scanners and self-checkout kiosks, and there have been a few changes to product assortment and services, like the addition of florists, coffee bars, and banks. But, in most ways, the grocery stores of your parents and grandparents are not unlike the the grocery stores of today.

Typical Grocery Store Aisle with Displays

However, your local grocery store might not be the only place you shop for food. Are there some stores you like best for quick trips, like convenience stores? Do you ever go to a club store like Costco to buy food in bulk?

While the typical supermarket hasn't changed much in over sixty years, what has changed is the number of places and number of ways you can get your groceries. And because more changes to food retailing are on the horizon, it's important to understand the differences in retail formats, including how they compete with each other.

INTRODUCTION TO RETAILER CLASSIFICATION

What you'll learn to do: list the classification characteristics of various types of retailers by ownership

A retailer is the last step of the supply chain. It is where consumers go to obtain goods and services. Without retailers, consumers cannot get what they want, where they want it, and when they want it. To best meet consumers' needs, there are many types of retail formats, reflecting different scopes and strategies. We will cover these formats more in this section.

Without retailers, consumers can be left without a place to make transactions for goods and services.

STRUCTURAL ORGANIZATION OF RETAILERS

LEARNING OBJECTIVES

- Match a retailer with its structural organization based on its classification.

Think about a can of soup. It's a common item, but its path to a consumer's pantry is long and involved.

The can of soup's journey begins at a manufacturing facility, where it is produced, packaged, placed on a pallet, and warehoused. Once it is ordered by a retailer, it will be shipped to a distribution center, where it will be bundled with other items to be trucked to an individual store.

Before we can send it to an individual store, however, we should figure out what type of store will sell the soup. Will the soup be sold at a grocery store? At a mass merchandiser like Target? At a club store like Sam's Club? At a convenience, drug, or discount store?

All of these retailer formats may stock soup in their inventory, and each format uses different strategies, objectives, and resources to sell items to consumers.

One way to categorize retailers is by their ownership structure. There are five primary ownership types within the retail industry:

1. Corporate chain
2. Independent
3. Wholesaler
4. Franchise
5. Co-op

There is a sixth structure, authorized dealerships, but they are not generally present in food retailing. Instead, they are more frequently seen in home or durable goods, e.g. Hunter-Douglas, Pella Windows, Harley-Davidson, and so on. We will concentrate on items 1–5.

1. Corporate chain

Corporate chains generally have multiple stores, central ownership, and consistent standards for execution. Some national chains have multiple regional banners under which they operate their stores.

For example, The Kroger Company operates Kroger stores, but it also operates under different names in different states: Dillons Food Stores (Kansas), Fred Meyer (Oregon, Washington, Idaho, and Alaska), Fry's Food & Drug (Arizona), King Sooper (Colorado), Ralph's (Southern California), Roundy's (Wisconsin and Illinois) and many others. Despite acquisition by The Kroger Company and later standardization, these stores have retained their names to maintain a connection with their history and local communities.

Corporate chains benefit from operating on a large scale, which allows them to standardize their operations in buying, advertising, and promoting.

Although a national grocery chain, Kroger operates some stores under different names.

Because of this standardization, they typically offer lower prices than independents do, although that ability is fully dependent upon their individual strategies. National chains with which you might be familiar include Wal-Mart, Kroger, and Albertson's. Examples of prominent regional chains are include H-E-B in Texas, Publix in the Southeast, specifically Florida and Georgia, and Meijer in the Midwest.

Corporate chains can be national or regional. Public is a good example of a regional grocery chain in the Southeast.

2. Independent store

As the name implies, independent stores are independently owned and operated. Owners may have multiple stores and operate similarly, but they do not benefit from the significant scale. Because of their size, independent stores buy product through wholesalers, which apply an upcharge (typically 6%) for warehousing and handling product. This means that independent stores are buying their goods at slightly higher costs than corporate chains get with direct buying. Thus, independent stores are not generally able to compete with lower prices. Instead, they may market themselves as "local," advertising their place in the community and customizing their product assortment to reflect local tastes, brands, or customs.

3. Wholesaler

As noted above, wholesalers are product distributors focused primarily on supply chain and logistics. However, some wholesalers also own stores and/or license their store brands to independent stores as part of franchise agreements. Those agreements often include clauses saying that the wholesaler will be the exclusive supplier of the independent store. SuperValu Inc. is a prime example of this type of agreement, as they have corporate stores and serve franchised stores under several names, including Cub and Shoppers.

Wholesalers are part of the supply chain, primarily focused on the logistics required to deliver to independent.

Wholesalers purchase product directly from manufacturers and growers. They re-sell this product to independent grocers, adding an upcharge for warehousing and shipping. Typically, the upcharge is 6%. Wholesalers may also coordinate some advertising and promotion for their customers in an effort to encourage more purchases by independent stores. However, wholesalers are far less efficient than corporate chains because they cannot set pricing or require participation.

4. Franchise

To the consumer, a franchise may look like a corporate chain, as the marketing and available products is usually consistent between franchise stores. The key difference is that while corporate chains are centrally owned, franchise stores are owned by individual business owners who have contracted with a larger company. In exchange for paying a royalty fee for the larger company's trademark, training fees, and a percentage of sales, a franchise owner can run a store under a larger company's brand, thus tapping into that company's customer base. This model is particularly common for large restaurant companies—for example, most Subway and McDonald's stores are franchises. Convenience stores often also follow this model. Popular convenience store franchises include 7-Eleven and Casey's General Store.

5. Co-op

Co-ops occur when several independent retailers join together to consolidate their purchases. This increases their buying power and might result in lower costs from manufacturers and growers. Typically, each member of the co-op has an equal voting right, regardless of the number of stores they own or the size of their business. Co-op members may also work together to purchase advertising and store infrastructure like shelving or software. Wakefern, which operates Shop-Rite stores in New Jersey, is a notable co-op.

Some exceptions to the above ownership structure exist. For example, the IGA, formerly the Independent Grocers Alliance, blurs many of the above distinctions. Like a wholesaler, IGA provides a logistical network to support distribution and the supply chain to independently owned franchise stores under the IGA brand.

Regardless of whether a retailer is a corporate chain, independent store, wholesaler, franchisee, or co-op, the important thing to know is that the ownership structure creates real opportunities and real constraints on the store, affecting how it competes. For example, corporate chains have scale, which allows them to standardize their operations and offer lower prices. However, they do not typically have the same level of service or connection to the local community that independent grocers enjoy. And, co-ops, while working together to reduce their Cost of Goods (COGs) have agreements that give each business a single vote, so members of the co-op with multiple stores are under-represented, reducing their influence and flexibility.

In the next section, we'll evaluate how specific retailers go to market.

ADVANTAGES AND DISADVANTAGES OF RETAILER TYPES

LEARNING OBJECTIVES

- Match a retailer with its advantages and disadvantages based on its classification

Consider the number of formats within the retail industry selling food:

- club and warehouse
- mass merchandisers / supercenters / superstores
- convenience and drug
- dollar and discount
- natural and organic
- specialty
- .com and at-home delivery
- traditional grocers

Each of these formats and the retailers within them are targeting a distinct consumer or shopping occasion. They've developed their retail environment to reflect that, in order to provide value. Consider the differences described below.

Club and Warehouse Stores

Club and warehouse stores like BJ's, Costco, and Sam's Club offer the lowest price per unit, or the lowest sales price for the number of pieces in a package. Club and warehouse stores accomplish this by offering a limited assortment of products and offering them in bulk sizes, passing savings from the manufacturing and logistical efficiency to their shoppers.

At a club store, product is handled in-bulk, i.e. on pallets and in large case packs.

Think about the can of soup we discussed earlier in this module. If the soup is a popular flavor from a leading manufacturer, it might be offered at a club or warehouse store. However, each can won't be available as a single unit. Instead, the soup will be sold in a multipack, with several cans in the same package. By doing this, the retailer helps the manufacturer by selling products that can be manufactured in the most efficient way, i.e. selling the most popular items in large quantities. By selling in high-count multipacks, the manufacturer reduces its manufacturing and packing costs.

These savings are passed through to the retailer and on to the consumer.

Thus, warehouse and club stores are able to offer the lowest "cost per piece," though they usually have high prices for individual items because they're selling in bulk. Consider granola bars for example:

- $14.79: Retail price for granola bars
- 49 individual packages
- $0.302 per individual unit

Compare to a grocery store:

- $2.79 retail price for granola bars
- 6 individual packages
- $0.465 per individual unit

That is, each individual granola bar at a warehouse and club store is cheaper than what can generally be found in other channels, but the price for the total multipack is relatively high.

Generally, club and warehouse stores carry only about 10% of the total number of products available in a typical grocery store (~4,000 vs. ~40,000). (Note: https://www.fool.com/investing/general/2015/04/26/why-does-costco-have-less-merchandise-on-its-shelv.aspx) However, they prioritize the strongest brands and best-selling items. Furthermore, club and warehouse stores also rotate new products into distribution frequently to create a treasure-hunt-like experience for shoppers, rewarding their loyalty.

Members pay an annual membership fee for the opportunity to shop in warehouse and club stores. In fact, most club and warehouse stores do *not* earn any profit from the sale of products. Instead, they generate profit through the sale of memberships. Costco is an example of this. Their leadership requires that the profit margin on all products be capped at 14%, covering only the cost of operations. Memberships provide all profits for the company.

Mass Merchandisers / Supercenters

Mass merchandise retailers, or supercenters like Wal-Mart, Target, and Kmart, provide shoppers with a one-stop shop by offering multiple categories, a broad selection, and deep inventory. This creates contact efficiency, allowing shoppers to buy what they want with a smaller number of store visits and transactions. This contact efficiency reflects adaptations to consumer behavior and the resulting market forces. Consumers want to maximize their time and minimize their work. Historically, mass merchandisers have benefited from higher shopping traffic due to the breadth of the categories and services they offer. However, this traffic has slowed since 2014. We will discuss this trend in greater depth in a coming section.

Mass merchandisers compete by offering a wide assortment of products to support a one-stop shop for consumers.

The scale of mass merchandisers allows them to negotiate aggressively with suppliers, passing discounts to shoppers through promotions and lower everyday prices. Please note, however, that the Federal Trade Commission requires that manufacturers be “fair and equitable” in their pricing across all channels. They cannot pass discounts to specific retailers, in the form of favorable pricing, unless there are real efficiencies realized in doing business with that retailer.

Thus, the everyday low pricing (EDLP) many mass merchandisers offer is not a reflection of better pricing from the manufacturer. Instead, mass merchandisers have adopted a strategy where they bundle all discounts and apply them across the projected annual sales volume so they can discount each item everyday. Consider the following:

- $2.40/unit—wholesale price of item X
- $2.00/unit—wholesale price of item X when on sale
- $0.40/unit—wholesale discount of unit when item X when on sale
- 40/60 Mix—percent of total manufacturer volume sold when item X is not on sale (“Off-Promotion”) or on sale (“On-Promotion”)

Thus, a mass merchandiser with an EDLP strategy would likely be offered item X at $2.16 per unit on every order:

- $0.40 discount per unit x 60% of volume sold “On-Promotion” = $0.24 discount per unit
- $2.40 – $0.24 = $2.16 per unit

This means that the mass merchandiser is buying the product at $2.16/unit and potentially pricing it on-shelf at $2.99 with 27.8% margins.

- $2.99 – $2.16 = $0.83
- $0.83/ $2.99 = 27.8%

By comparison, a competitor in another channel will purchase the product at $2.40, which means that their shelf price, assuming a 27.1% margin, will be $3.29. However, the $0.30 difference in price ($3.29 – $2.99) is made up when the competitor is able to put the item on sale. Then, the mass merchandiser might offer the item at $2.79 at a better 28.3% margin.

Convenience and Drug Stores

Convenience and drug stores are opportunistic food retailers, offering single-serve portions, smaller package sizes, and high velocity items for fill-in shopping trips. Generally, they stock very limited items and quantities, predominantly sticking to staples like milk or shelf-stable snacks, meal replacements, and beverages. Shoppers in these formats pay higher prices for convenience. Thinking back to our soup example, it's very likely that our item might be replaced on-shelf with a comparable item with more convenience, such as a product that can be microwaved or a product that is a full meal replacement.

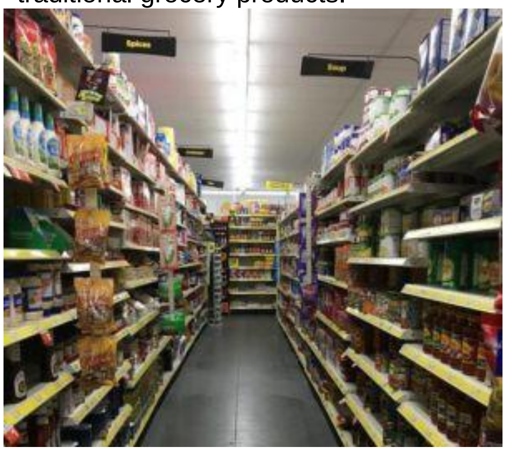
High convenience and fill-in items are prominent in convenience and drug stores.

Discount and Dollar Stores

Discount and dollar stores, such as Aldi's, Dollar General, and Dollar Tree, are no-frills value formats that primarily stock shelf- stable, packaged foods. Because their shoppers are particularly value-oriented, discount and dollar stores typically offer private label products or items from secondary and tertiary brands. When offering products from leading national brands, these items are generally "close-dated," meaning that they're approaching their expiration date and were likely purchased at a significant discount. Staffing is minimal at these stores, and units on shelf are frequently presented in their shipping case, unlike the cleaner and more attractive presentation at other retailers.

Natural and Organic Stores

Natural and organic Stores, e.g. Whole Foods, Sprouts and Trader Joe's, cater to health-conscious shoppers. While all-natural and organic foods have become more mainstream, they are generally priced at a significant premium to traditional grocery products.



Dollar and discount retail formats offset low prices by offering a no-frills shopping experience.

Some retailers in this space do offer traditional items, such as Cheerios at Whole Foods, while others limit their assortment exclusively to items certified as organic or all-natural. Again, thinking of our soup example, it is possible that the soup would be shelved in some natural or organic stores. However, it would not likely have the same shelf presence or focus that it warrants in other channels, especially traditional grocery.

Specialty Retailers

Specialty retailers are on the rise as an alternative to mass merchandisers and online retailers. Their focus is on customization and customer service. Examples of this are butchers and bakers. Ethnic grocers, which shelve unique products not generally found in other outlets, are also specialty retailers. Generally, these retailers command higher prices to offset high input and labor costs.

Online Retailers

There are many retailers who have developed their .com capabilities to complement their brick and mortar stores. Wal-Mart, for example, is in the midst of expanding at-home delivery for orders through their website, sending the product from their nearest location. There has also been an

emergence of direct-to-consumer at-home delivery services like Boxed.com, Graze, and NatureBox. These

companies have similar models, sending an assortment of products to the shopper's home at a set interval. Similarly, companies like Blue Apron, Hello Fresh, Sun Basket and Plated send meal preparation kits to their subscribers. These players are particularly noteworthy because they reflect a new trend within retail, fulfilling a consumer need for convenience by skipping the shopping trip entirely.

Traditional Grocers

Traditional Grocers are the primary retail outlet for food sales, including grocery stores and supermarkets. Many of these stores are undergoing change to increase perimeter departments, reflecting consumer interest in fresh and specialty items. These areas have higher labor costs, but are potentially areas of differentiation for the retailer.

Typically, grocery stores operate with a high-low promotional model, meaning that they advertise weekly specials to drive traffic. They pulse discounts on and off to encourage consumers to take advantage of the offer now, making consumers increase their number of purchases. As we showed earlier, a typical item may have a cost structure like this:

- $2.40/unit—wholesale price of item X
- $2.00/unit—wholesale price of item X when on sale
- $0.40/unit—wholesale discount of unit when item X when on sale
- 40/60 Mix—percent of total manufacturer volume sold when item X is not on sale (“Off-Promotion”) or on sale (“On-Promotion”)

Thus, a traditional grocer will purchase ~40% of their annual inventory at $2.40, while buying ~60% at $2.00. This means that their weighted average cost of goods is $2.16. (You should note that this is the same price as the discounted rate the mass merchandise retailers receive “everyday.”)

- $2.40 x 40% = $0.96
- $2.00 x 60% = $1.20
- Weighted cost = $2.16

As such, a traditional grocer will likely offer the item on-shelf at $3.29, assuming a 27.1% margin, every day UNLESS they have a sale promotion. During the sale period, they’ll offer the item at $2.79 with 28.3% margins. Given the scope of products offered in a traditional grocery store (approximately 40,000 products), these retailers are able to consistently pulse promotions weekly to drive traffic to their stores.

As you can see, each of these formats provides unique value to the consumer. For example:

- Warehouse and club stores offer the greatest value, but they require annual memberships and have relatively high item prices.
- Mass merchandisers offer everyday low prices, but the breadth of items they carry, up to 150,000, make their stores busy and difficult to shop at. Furthermore, traditional grocery stores will offer better prices on promoted items during sales.
- Convenience and drug Stores offer convenience, but have very limited selection.
- Discount and dollar stores offer low prices, but generally offer no-frills shopping environments and less well-known brands.
- Natural/organic and specialty retailers offer an array of unique items, though they generally have higher prices.
- Traditional grocers carry a wide assortment of foodstuffs and have competitive pricing. But, they do not offer the lowest prices (like club and warehouse stores) or most convenience (like mass merchandisers).

Thus, each format targets specific consumers and types of shopping trips. In order to provide value, their retail environments and strategies reflect this.

INTRODUCTION TO FOOD RETAILERS

As you've seen in previous sections, the surge of retail channels and retailer formats selling food has had a tremendous effect upon grocery retailing. Yet the landscape promises even more change, as consumer behavior evolves in a connected, on-demand world. The next several sections will focus on the emerging factors that will further shape grocery retailing.

CHANGES IN FOOD RETAILING

LEARNING OBJECTIVES

- Identify the most dramatic change in food retailing today

Earlier we discussed how the most meaningful change in food retailing has been the growth of competitive channels, formats, and outlets. A wide array of retailers have included food items in their assortment because expanding their offerings increases purchases from customers. Furthermore, including food items might increase store traffic, either by drawing in new shoppers or getting them to return more frequently.

Campbell's® Chicken Noodle Soup

Let's revisit our example with the can of soup.

You can certainly find this item at your local grocery store or supermarket. But you can also buy it in bulk at a warehouse store like Costco. If you're out shopping at a mass merchandiser like Target, you'll still be able to find it. In fact, you might even be able to find the soup at your local Walgreen's or 7-11 store. Even if you don't want to leave home, you can order the soup online at Amazon.com and have it shipped directly to your doorstep.

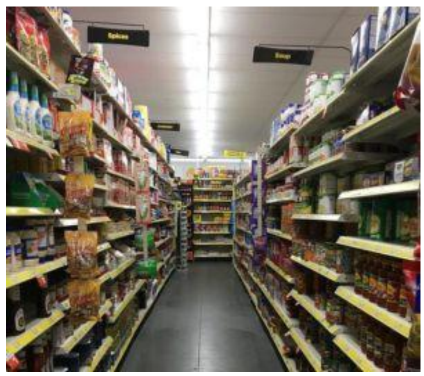
So, you might ask, "Why doesn't every retailer expand their product assortment to meet all possible consumer needs?" Because retailers shape their offerings to position themselves for a distinct target, differentiating themselves in-market. A critical element of this is providing the shopping experience their target customer values. In the context of groceries, a Wal-Mart superstore carries a slew of products and is a fine retail environment, but it's a decidedly different shopping experience than you get at a Kroger supermarket, which in turn is decidedly different than a shopping experience at Whole Foods, which in turn is a different shopping experience than you get at Dollar General.

Compare the store layout, assortment, pricing and service of a Club Store…

vs. a Mass Merchandiser…

vs. a Traditional Grocer…

vs. retailer specializing in Natural/ Organic Foods…



vs. a Dollar Store

Thus, retailers aren't just competing with one another through the items they offer and the pricing they set. Instead, they're competing on a whole host of other criteria, including

- Convenience
  - Is the store nearby?
  - Is there ample parking?
  - Will they have what I need?
    - Is it likely that the item will be in stock?
    - Will I be able to find the item quickly?
- Customer Service
  - Is this a place I like to shop?
  - Is the store clean?
  - Are the staff available? Are they helpful?
  - Can I get in and out quickly?
    - Will there be enough cashiers working?
    - Is self-checkout offered?

As you can see, for many shoppers, the questions for the retailer aren't just "do you have it?" and "what does it cost?" Instead, shoppers are considering a number of factors that are based upon their individual needs. If you were just picking up milk on a Saturday afternoon, would you rather stop at a club store or go to the local grocery? How would that decision change if you were planning to shop for a two-week supply of groceries?

Groceries have moved to a whole host of other channels, where non-traditional formats use groceries to increase store traffic and revenue. Because the traditional grocery business operates on thin margins, sales volume is critically important to remain financially viable. Thus, this loss of sales to alternative channels is an important competitive threat. However, the loss doesn't imply that grocery stores and supermarkets are destined to decline. Instead, it's far more likely that their model will evolve to meet changing consumer needs. It is therefore critical that we understand these alternative formats and identify how we can most effectively compete with them, whether we’re selling a simple can of soup or a unique customer experience.

VARIETY AND ASSORTMENT OF GOODS IN FOOD RETAIL

LEARNING OBJECTIVES

- Assess the variety and assortment of goods carried by each type of food retailer

Let's examine again how food retailers can very from one another, considering assortment. Let's say you want to purchase a can of soup. How would you find the soup in each of the different stores? You might check a specific aisle or section of the store. How would this change if you were in a dollar store, a convenience store, or a warehouse club?

A category (such as soup) may be divided into several segments and sub-segments of soup (such as dry soup, chicken soup, or condensed soup). These segments can be further divided into brands (such as Campbell's Chicken Noodle Soup and Healthy Choice Chicken Noodle Soup) and then further divided into SKUs, or Stock Keeping Units.

- Typical segments and sub-segments for soup:
  - Dry soup section, such as ramen and mixes
  - Ingredients, such as bouillon
  - Ready-to-Serve (RTS) segment
  - Condensed, which can be further divided by
    - Ingredient
    - Meal, which can be further divided b
      - w/o Protein
      - w/ Protein, e.g. Chicken or
- Leading brands in the Ready-to-Serve segment:
  - Campbell's
  - Progresso
  - Amy's
  - Healthy Choice
  - Wolfgang Puck

There are lots of items within a category, segment, and sub-segment.

- SKUs, which can number from single digits to dozens or more

It's important to understand merchandise this way because retailers make assortment decisions at the category, segment, brand, and SKU level to target a distinct consumer or shopping occasion.

With this in mind, think about a non-traditional format like a Walgreen's drug store. Do they have freezer space? How much? Are they able to carry ice cream, frozen pizza, frozen dinners, and frozen vegetables? If not, what do they exclude? When we consider their model and focus, we can understand how they make assortment and distribution decisions.

Consider Family Dollar, a dollar store. With low staffing levels and a focus on low costs, Family Dollar must consider how to reduce their risk of spoilage. Without large refrigerators or freezer space, they would not be able to stock a wide assortment of milk, eggs, fruits, vegetables, or meat.

A Sam's Club warehouse, which has a limited assortment, will offer some products in the soup category. But they likely will not carry all segments, and they certainly will not carry most brands or SKUs. By comparison, a traditional grocer and mass merchandiser will have considerably more selection on-shelf. Again, these differences in assortment are important because they reflect one dimension of competitiveness for retailers—assortment.

However, there is a limit to how much differentiation the various retail formats will have from each other. A 10.75-oz can of Campbell's Condensed Tomato Soup is the same product at Target, Kroger, HEB, and everywhere else it is carried. A 21-oz box of General Mills' Cheerios is the same at Wal-Mart, Safeway, Food Lion, Mi Pueblo Food Centers, and every other store that stocks it.

(Note: In rare cases, some large retailers such Wal-Mart, Target, Sam's, and Costco have the clout to request unique items from manufacturers. However, these unique items are usually offered either in limited supply or for limited

Shelf-stable and packaged items aren't generally differentiated across formats or retailers.

periods. These retailers are able to do this because of their scale and sales volume, which reduce costs and risk for the manufacturers.)

CURRENT TRENDS IN FOOD RETAIL

LEARNING OBJECTIVES

- Discuss the current trends affecting food retailers

While the growth of channels and competitive outlets has had massive implications over the past twenty years, there are other significant factors influencing food retailing in the United States, including demographic changes, consumer demand for convenience and solutions, and cost pressure.

Specific to demographics, food retailing is being influenced by baby boomers, millennials, and the increasing cultural diversity within the country. This is reflected in the focus on fresh and local foods, the rise of ethnic foods and flavors, the mainstreaming of natural and organic products, nutrition and health credentials, and single-serve and portion control.

The Rise of Healthy Food

In an effort to manage general health, many baby boomers have become more focused on diet and the role that food plays in managing wellness. As a result, manufacturers have responded by improving the health credentials of their items. This often manifests in avoidance trends such as sugar-free, fat-free and low-sodium products. For growers, producers, and retailers, this trend has also been reflected in increased consumption of fresh and local foods, primarily produce, but also extended to meat, fish, and poultry.

Increasing attention to health maintenance through diet has put focus on fresh, organic, and all-natural products.

Millennials have also demanded a focus on fresh and local foods. Their interests lie in both a demand for authenticity and a desire to reduce the environmental impact of commercial food production. This, coupled with higher health credentials, is also at the core of the mainstreaming of natural and organic foods. Boomers and millennials in particular reflect a belief that natural and organic foods are both “better for you and better for the environment.”

Single Living Through Food

The smaller households of boomers and millennials, who have put off life events like marriage, parenthood, and home ownership to later ages, compared with previous generations, mean that large pack sizes do not suit their lifestyles. Instead, these smaller households want a smaller pack size and flexible packaging more suitable for households of 1–3 members. Smaller households also want items that are resealable so they can be put away for a later use.

Diversity in Food

Cultural changes within the country mean that the food and flavor variety the general public demands is broadening. While we can already see some changes to the assortment of products offered, we should expect this diversity to influence the shopping environment as well. For example, a lot of in-store signage and product packaging are evolving to be multilingual, dependent upon the demographics of the community. Imagery is also changing to reflect multiple cultures. Retailers and their associates need to understand the customs of different groups within their communities, such as halal or kosher restrictions on food handling.

#BENATIVE Intro: how culture shapes communication from ANECSYS on Vimeo.

The Future Is Convenient

Consumers' demands for convenience and solutions also promise changes to the food retail industry. Of course, this is not new. In fact, these same demands have been at the heart of nearly every innovation we've seen in the industry for the past 60+ years. However, the rise of technology, which encourages consumers to be online, engaged, and connected without interruption, has increased what kind of service is possible and elevated expectations.

A few decades ago during the first dotcom bubble, a host of start-ups worked hard to master grocery delivery. ore recently, Amazon has raised the staes, developing a distribution network that promises two-day delivery for most items, including sundries. They are also expanding into grocery delivery. Amazon's acquisition of Whole Foods in late 2017 sent a very clear message that it was serious about winning in the grocery space.

Amazon is not the only one acquiring companies like Whole Foods. Wal-Mart's purchased of Jet.com and InstaCart's partnerships across several retailers also foreshadow that the future of retailing may not include a shopper's trip to the store. Instead, grocery shopping for the average consumer may include only a mobile app, a stored credit card number, and a delivery charge.

In addition, consumers' need for solutions has also contributed to the rise of subscription services that offer at-home delivery. Boxed.com delivers an assortment of household items, including groceries. HelloFresh, Blue Apron, and Plated deliver meal kits with pre-measured ingredients and full instructions for at-home preparation. Companies like Munchery go a step further, delivering chilled meals, which can be heated and served. Note, of course, that all these solutions remove a shopping trip and bring the product directly to the consumer's home. Many consumers are willing to pay a premium for such conveniences.

Home Automation

In addition to increasing online grocery sales, home automation in which appliances can communicate is also impacting the way people shop for food. Already, Amazon Echo is in more than 20 million homes, while Google Home is in more than 4.6 million homes. (Note: https://www.voicebot.ai/2017/10/27/bezos-says-20-million-amazon-alexa-devices-sold/) We are clearly moving toward a world where a replacement can of soup, box of cereal, or gallon of milk requires only "Alexa, order…"

Cost Pressure

Home automation means that order fulfillment may not require a future shopping trip at all.

Cost pressure and how it relates to labor is also affecting the industry. Wage inflation, while positive for associates, is a real concern. In light of fragmenting channels and the continued rise of online sales, both of which make brick and mortar stores less efficient, higher wages threaten to shift cost structures negatively. Expect continued efforts by large companies to reduce labor costs, either through automation with tools like self-check lanes or through expanded job roles where two associates will do the work of three.

Demographic changes within the country, consumers' demand for convenience and continued cost pressure, along with continued channel blurring, are the most significant factors facing the food retail industry. Their effects can be seen in everything from the rise of fresh and healthy products to a broadening of ethnic offerings to new grocery delivery initiatives and efforts to control in-store labor costs. These trends promise to influence the industry for years to come.

INTRODUCTION TO SERVICE AND MERCHANDISE RETAILERS

For many retailers, it is difficult to differentiate themselves because the items they carry are also available at their competition. Therefore retailers are left to compete in other ways, either through unique products or on exceptional customer service. Retailers who are unable to be excel at those areas over their competition are left to compete on price alone. This is a dangerous game, given the small margins within food retailing.

ASSORTMENT LEVELS AND TYPES OF RETAILERS

LEARNING OBJECTIVES

- Assess the variety and assortment levels of goods for each type of merchandise retailer

Imagine the difference between shopping at a Macy's, a Staples, a shoe store, and a Wal-Mart. These retailers all differ in their assortments and you likely wouldn't buy everything you need from just one of them. Obviously a shoe store would not be the place to go for groceries, but it would be a good place to find a new pair of sandals. We will examine the differences in assortment and variety between different types of merchandise retailers below.

Department Stores

Department stores offer a broad assortments of products with multiple departments separating product categories. Their assortments have depth within each category and they have some variety, but usually focus mainly on soft goods such as apparel and bedding, but some hard goods, like appliances, are usually included as well.

Category Specialist

As the name suggests, category specialists are retailers that specialize in one category of products. These categories are fairly broad, such as clothing or hardware. Think of stores like Office Depot or Toys R Us that clearly have a specific type of product they're selling, but still have a very broad assortment with lots of depth within that category.

Specialty Stores

Specialty stores, like category specialists, have a specific type of product that they sell, but specialty stores are even more particular than category specialists. While category specialists sell products of a certain category, specialty stores are much more product-specific. They don't have much in the way of variety, but their assortment is very deep. Specialty stores would include florists, locksmiths, and hardware stores, among others.

Full Line Discount Stores

Full line discount stores are retailers that provide name-brand products at a lower cost than other stores. They make money by keeping sales high in order to be able to sell name-brand products at a lower cost than elsewhere. This system also necessitates lots of variety and a wide assortment so that sales can be driven up more easily.

Drug Stores

Drug stores don't stock a wide variety of products, but have depth in their assortment of health products. It's important for them to have this depth because they have to compete with other larger super center stores that have pharmacy departments.

Off-Price Stores

Off-price retailers offer high quality products at cheap prices. They buy from other retailers that overbought, manufacturers that overproduced, retailers selling their remaining inventory that is going out-of-season, and in other similar ways. Their assortments are primarily soft goods and because of the nature of their purchasing system, their inventory is inconsistent. T.J. Maxx and Marshalls are examples of off-price retailers.

ADAPTING TO THE CURRENT LANDSCAPE

LEARNING OBJECTIVES

- Describe the choices each type of retailer is currently making to adapt in the current landscape
- Identify the key differences between service and merchandise retailers

A lack of product differentiation between retail formats is one of the reasons some retailers have developed private label or store brand items. These products help retailers customize their distribution. Typically, they are positioned as lower-cost alternatives to regional, national, or international brands. However, some private label brands have been positioned as “premium” brands to compete with existing “name” brands. Costco’s Kirkland Signature and O Organics at Albertson’s are good examples of premium positioning for private label brands.

But if retailers are unable to differentiate the products they carry, how can they compete?

Traditional grocers leverage other areas of their stores and categories, especially produce and meat, to differentiate their shopping experience from the competition. When merchandised well, produce and meat signal positive attributes about the store to the shopper about the store’s standard for quality and freshness. Retailers who focus more on product quality to differentiate themselves from competition are also known as **merchandise retailers**.

Customer service is another area where retailers distinguish themselves from competition. This can be reflected in the breadth of services offered, such as also offering a bakery, deli, and floral department. Or customer service can be shown through care for shopping experience, such as having exceptional store cleanliness, in-stock levels, informed and available associates to answer questions, and limited wait times at check-out. Some stores even offer carry-out service, meaning an associate will assist shoppers with loading bags into their cars. Above all, a service orientation seeks to make the individual’s shopping experience personal and satisfying. **Service retailers** focus on customer service to differentiate themselves from competition.

If a retailer carries common items and fails to differentiate with other departments or on service, they’ll be left to compete on price alone. This is a dangerous game, given risk to eroding already small margins within food retailing. It is far wiser for the retailer to elevate category appeal and service customers well.

TYPES OF SERVICE RETAILERS

LEARNING OBJECTIVES

- Name an assortment of service retailer types

To some degree, customer service is fundamental to all retail because it supports customer loyalty and contributes to the customer's overall retail experience. However, retailers must decide what level of service they will provide for their customers:

- **No service**, such as Amazon Go concept stores that do not have associates or check lanes
- **Self-service**, such as most grocery shopping experiences where the product is available on-shelf for the shopper's selection. This goes a step further when shoppers use the self-checkout and scan the items, process the transaction, and bag the product themselves.
- **Full-service**

The variety of supporting services, known as the service type, range from self-service operators that provide few basic services to full-service operators with a wide range of highly personalized services.

Full-service retailers compete by providing support to consumers at every touch-point in the shopping process. This isn't just confined to the realm of personal interaction, but includes service types that can make the shopping process easier:

- Accepting multiple forms of payments, such as cash, check, or credit card
- Offering delivery services
- Making recommendations or providing demonstrations, such as offering recipes, cooking classes, or product samples
- Allowing exchanges or returns
- Allowing special orders
- Providing customer loyalty programs

However, it should be noted that services often come at some cost to the retailer, primarily in the form of increased labor. Thus, retailers must balance the desire to offer several services against customers' willingness to pay for the additional supporting services. Full-service typically requires premium pricing. Thus, it's extremely important that full-service retailers train their personnel well to provide excellent customer service enough to make their customer service a meaningful differentiator against competitors. By providing excellent customer service, retailers create opportunities to build customer relationships with the potential to increase loyalty and referrals.

There are several ways that food retailers deliver services to consumers. They can have counter service, where goods are out of reach of buyers and must be obtained from the seller. This type of retail is common for small expensive items, such as jewelry, and controlled items, like medicine and liquor. In food retail, counter service typically takes the form of the deli counter or meat department, where an associate will make recommendations, portion items, and package them for the shopper.

Another method is special orders, which can be online, in-person, or by phone. Many food retailers offer this service in their bakery departments, where cakes can be special ordered. The meat and floral departments may offer similar services.

Some retailers offer in-store pick (ship to store) or delivery to the consumer's home (home delivery). Wal-Mart is experimenting with similar services for in-store pick-up or home delivery of online grocery orders. Several other retailers are doing the same through InstaCart.

There is also self-service, where goods may be handled and examined prior to purchase. In food retailing, this is much more common with sampling or product demonstrations. For example, warehouse club stores often offer sample items to overcome the large ticket price and quantities of their items.

INTRODUCTION TO STORE-BASED STRATEGY MIXES

Retailers target specific consumers and shopping occasions. Think about consumers on their commute home from work on a Tuesday evening. Their purchase of a carton of milk at an AM/PM convenience store where they've also stopped for gas is very different than their purchase of two gallons of milk during a stock-up trip to a supercenter on a Saturday afternoon. As such, retailers' store environments, layout, assortment, hours of operation, and many other factors reflect these strategic targeting decisions.

WHEEL OF RETAILING

LEARNING OBJECTIVES

- Identify the four levels on the wheel of retailing
- Explain the retail life cycle

The wheel of retailing refers to the general life cycle retailers experience over time. It has four phases:

- Entry
- Growth
- Maturity
- Decline

Please know that this framework is a convenient way to describe how organizations change over time. It is not, however, a systematic process, meaning that not all retailers pass through the phases along the same timeline. Each phase may pass rapidly or stretch over decades.

Entry

During the entry phase, a retailer penetrates a new market. This phase is marked by low prices, low retailer margins, and low customer awareness or affinity, reflected in low(er) reputation for the retailer.

In the entry phase, the retailer's focus is on streamlining operations to support the new venture. It leverages low-cost infrastructure, focuses on specific product categories, limits services, and competes on price to drive store traffic. It's through these low prices that the entry retailer provides value to the shopper.

Growth

During the growth phase, a retailer has a foothold in the new market and seeks to expand, either through the breadth of its product categories, new services, or additional store locations. This phase is marked by higher prices and retailer margins compared to the entry phase and improved customer awareness or affinity, reflected in increasing reputation for the retailer.

Provided it has gained traction in the market, the retailer shifts its focus to expansion. It invests in its infrastructure to support a growth plan, expanding product categories and services and competing on multiple dimensions beyond price. At this stage, the retailer is adding customers more quickly than it is losing them.

These retailers are able to add new customers because they're adding stores and replicating the competitive capabilities of other retailers in the market. For example, think about rival grocers or supermarkets in your area. It's very likely that one entered the market and grew to compete with the other that was already established.

Maturity

During the Maturity phase, a retailer operates at full capacity. It has a steady customer base where new customers offset customer losses (attrition). This phase is marked by high prices, high retailer margins, and high customer awareness or affinity, reflected in a good reputation for the retailer.

At this stage, the retailer is a well-established player within the market. It has robust infrastructure, capabilities, and service. While these factors supported customer acquisition during the growth phase, they're now liabilities because of high investment and ongoing costs. Furthermore, the retailer is not adding customers faster than it is losing them, so it must maintain customer satisfaction to support loyalty.

Decline

During the decline phase, the retailer is vulnerable to lower cost operations and those competitors with greater flexibility. These new rivals enter the market with similar characteristics of the retailer in its own entry phase. The established retailer loses customers to the new entrant faster than it can replace them. This affects the retailer's cost structure as its infrastructure and services come at very high costs and are not offset with enough customer traffic.

Please note that entry into the decline phase does not guarantee the retailer will fail. Instead, retailers in decline can reinvent themselves through acquisition, divestiture, or strategic change. However, it is important to know that when customer acquisition falls below the rate of customer loss, a retailer is in decline and must reevaluate its strategy.

A&P: A Case Study

From 1915 to 1975, The Great Atlantic & Pacific Tea Company, commonly known as A&P, was the largest retailer in the United States, yet it is gone today. A&P went through all four stages on the wheel of retailing, changing their strategies along the way. Ultimately, its strategies when in decline were not enough to save the company, but A&P's history provides a good example of each stage.

- **Entry:** A&P opens its doors in 1859 as Gilman & Company, a tea and coffee retailer. For the next twenty years, A&P grows, building a customer base with a focus on tea and coffee products.
- **Growth:** After a couple decades, A&P began using promotions and discounts, introducing the "economy store" concept to the industry. After World War I, A&P expanded their product offerings to meat and produce.
- **Maturity:** By the 1930s, A&P had around 16,000 stores. It began building 4,000 larger superstores while phasing out smaller stores.
- **Decline:** By the 1950s, other competitors were offering lower prices and more modern conveniences, costing A&P customers. High operating costs caused A&P to reduce its efforts to provide good customer service, and by the 1970s A&P stores began to close.

SCRAMBLED MERCHANDISING

LEARNING OBJECTIVES

- Define scrambled merchandising

Scrambled merchandising refers to a retail tactic in which a retailer broadens their assortment to include items that are generally outside their focus or are usually sold in a different retail format. It might be easiest to think about scrambled merchandising by considering it in practice. For example, think about how the traditional grocery store has evolved to a supermarket format that sells magazines, books, toys, seasonal decorations, housewares, hardware, and so on. In none of these cases does the supermarket carry a wide variety of items in the specific departments compared to specialty retailers. However, they carry enough to have a presence in the category to benefit the shopper through contact efficiency.

When done well, scrambled merchandising adds to the shopping experience rather than distracting from it. Consider the example of Kohl's department stores. They offer limited food items to complement their kitchenware offerings. This works because the items are complementary to one another.

The risk in this strategy comes when unexpected items are included in the assortment that confuse shoppers. When this occurs, it can detract from the shopper's experience and tarnish the retailer's brand image. Furthermore, if the new products aren't appreciated or shopped, they can risk high inventory, leading to markdowns and write-offs. Thus, scrambled merchandising should be approached cautiously and leveraged only as a complement to the current assortment.

EVOLVING THROUGH MERGERS, DIVERSIFICATION, AND DOWNSIZING

LEARNING OBJECTIVES

- Discuss how a retail institution can evolve through mergers, diversification, and downsizing

Throughout the late 1990s, the retail food industry underwent a period of massive consolidation as retailers reacted to the emergence of new distribution channels and the sophisticated supply chain of new competitors. Traditional grocery retailers reasoned that the only way to compete with the encroachment of new formats selling food and the scale of everyday low-pricing retailers like Wal-Mart was to increase their own scale by acquiring competitors. To put this into context, approximately 10% of retail stores were purchased by new owners from 1996–2000, representing over $67 billion in annual revenue.

This consolidation among retailers and the continued growth of Wal-Mart has led to a long-term trend where sales are concentrated among a fewer number of national and regional retailers. Consider that in 1992, the 20 largest food retailers, including all formats, accounted for 39.2% of US grocery sales. By 2000, that percentage had pushed to 54.7%. As of 2016, the top 20 retailers account for 66.6% of US grocery sales. The trend is similar for the top 4 food retailers, which represented 16.8% of sales in 1992, 28.8% of sales in 2000, 38.1% of sales in 2008, and 42.4% of sales in 2016 (Walmart Stores, Inc., Kroger, Albertson's, and Ahold Delhaize, respectively).

The consolidation of sales and emergence of e-commerce channels, marked by Amazon's acquisition of Whole Foods and Wal-Mart's acquisition of Jet.com has touched off another period of mergers and acquisitions (M&A).

Long-term, US Grocery Sales are concentrating among large national and regional retailers.

Mergers and Acquisitions (M&A)

Mergers and acquisitions are transactions in which the ownership of companies, other business organizations, or their operating units are transferred or combined. A merger is a legal consolidation of two entities into one entity. By contrast, an acquisition occurs when one entity takes ownership of another entity's stock, equity interests, or assets. Nevertheless, from a commercial and economic point of view, both types of transactions generally result in the consolidation of assets and liabilities under one entity.

Mergers and acquisitions can help organizations grow, shrink, and change the nature of their business or competitive position. For example, Amazon's acquisition of Whole Foods helped it to diversify by entering the brick and mortar retail space and leveraging Whole Foods's supplier network of fresh and natural/organic foods. Ahold and Delhaize's $13.6 billion merger brought several leading grocery chains with regional presence (Giant, Shop & Shop, Food Lion, and Hannaford) under the same corporate umbrella, streamlining operations.

Some retailers might pursue efforts to downsize their operations so that they can invest in their core business. Supervalu has divested almost 1,350 stores in the past five years to focus on their wholesaling operations. In 2013, it sold 877 grocery stores under the Albertsons, Acme, Jewel-Osco, Shaw's, and Star Market banners. In

2016, it sold 472 Sav-A-Lot stores. It used the proceeds from the sales to pay down debt and improve its cash position for future investment in the business.

After a flurry of activity in the late 1990s, retail is entering another period of consolidation. Expect to see mergers, acquisition, and strategic downsizing as retailers seek to diversify themselves, streamline operations, or improve their capital positions to make investments in core businesses.

INTRODUCTION TO COMPETITIVE ANALYSIS

Competitive analysis is an integral part of developing an organization's marketing strategy. It is done by identifying competitors, then evaluating their strategies for strengths and weaknesses relative to your own. When done effectively, competitive analysis helps you understand your competitors' capabilities, which will inform you how they go to market and what they prioritize in their operations.

OBTAINING INFORMATION ON COMPETITION

LEARNING OBJECTIVES

- State the places retail managers should go to obtain information on their competition

"*A horse never runs so fast as when he has other horses to catch up and outpace* ."

—Ovid

Retail is a competitive business. Nowhere is this more true than in food retailing, where channel expansion, concentration of sales, e-commerce, and changing consumer behavior have converged to alter the industry dramatically. Moreover, change will continue, driven by many of these same forces. Thus, it's important for retail leaders to understand ways to assess their competition to ensure that they have a good understanding of the strategic strengths and weaknesses other retailers bring to the market. In doing so, they will ensure that they are able to pursue higher levels of performance.

Fortunately, there are many ways for one to collect information on the industry and its players:

- Industry
    - Government reports
    - White papers
    - Industry publications
- Specific competitors
    - Press releases / company websites
    - Financial reporting
    - Weekly circulars
    - Store visits

There are many sources of information specific to the grocery or food retailing industry. For instance, the US federal government publishes information on industry trends through the Department of Agriculture (https://www.usda.gov). Users can type specific topics into the search box to find data and articles across all USDA sites. In addition, several consultancies such as Bain & Company, Boston Consulting Group, and McKinsey & Company, produce white papers on the state of the retail industry in the United States and beyond. These pieces may cover multiple sectors and regions, but some will focus on trends specific to food retailing or consumer trends. Publications like *Supermarket News* (http://www.supermarketnews.com) and *Progressive Grocer* (https://progressivegrocer.com) require subscriptions, but produce stories on the industry and retailers across multiple formats.

If you're looking for information on specific retailers, you can set up Google Alerts to track their coverage and press releases. Furthermore, retailers' websites might provide information on their promotional activity, new store schedules, and other important topics. For additional information, consider reviewing the financial reports that publicly traded companies publish quarterly (10-Q) and annually (10-K and Annual Reports). These filings provide comprehensive information on the retailers operations, including sales revenue, operating expenses, profit, and other factors. In addition, the filings also include forward-looking statements from company leadership that reflect priorities. These documents provide a great deal of information about how firms operate.

If your focus is on specific retail operations in your market, a good place to begin is the weekly circulars published by your competitors, where they feature their specials and promoted items. In evaluating their items, you will learn what departments they prioritize, when their sales begin and end, and how they promote and discount specific items.

Incumbent with this, it’s important to spend time visiting competitive retailers. This might provide insight on store layout, including how much space is dedicated to specific departments or categories, staffing levels, promotion and display activity, merchandising tactics, and pricing without promotion. Please note that the importance of store visits cannot be over-emphasized. They are critical in providing a hands-on experience of the competitive retail environment.

Regardless of whether you’re interested in macro industry trends, the performance of rivals at the corporate level, or how well your local competition is pricing specific items, there are a number of ways to access information to support your competitive analysis.

NAICS CODES AND DIRECT COMPETITORS

LEARNING OBJECTIVES

- Use NAICS codes to determine direct competitors

The North American Industry Classification System (NAICS) (https://www.naics.com), which replaced the Standard Industrial Classification (SIC) system in 1997, is used by federal statistical agencies to classify businesses. They do this so that data collected on the businesses can be aggregated to create a snapshot of the total industry for analysis and comparison. Some common NAICS codes for food retailers are as follows:

- 445110—supermarkets and other grocery (except convenience) stores
    - commissaries, primarily grocery
    - delicatessens, primarily retailing a wide variety of grocery items and meat
    - food stores
    - grocery stores
    - supermarkets
- 445120—convenience stores
- 445210—meat markets
- 445220—fish and seafood markets
- 445230—fruit and vegetable markets
- 446110—pharmacies and drug stores
- 452311—warehouse clubs and supercenters
- 452319—all other general merchandise stores

Please note, however, that the above list is not exhaustive. For example, there are unique codes for candy stores, stores that sell nuts, bakeries that bake goods on premises, and bakeries that don't. What's important is that you can identify your NAICS code to see statistics about your specific industry, allowing you to get a better understanding of your competitive set.

PUTTING IT TOGETHER: RETAIL ENVIRONMENT ANALYSIS

In the last 20 years, groceries have moved from the grocery store and supermarket to a whole host of other channels, where different retail formats are using food to increase store traffic and to increase revenue. This is important because our existing grocery and supermarket formats, largely unchanged in over 60 years and with

very thin operating margins, are now competing with a host of new competitors. And, even more change is promised. Continued development of e-commerce, changing consumer behavior and increasing labor costs put pressure on operators to be more efficient and customer-centric.

The pressure of e-commerce will continue, pushed by ongoing investment in infrastructure and capabilities. Look no further than Wal-Mart's acquisition of Jet.com in August of 2016 or Amazon's acquisition of Whole Foods in October of 2017 to know that the biggest players in retail are serious about expanding channels and their outreach to consumers. Retailers that blend .com with traditional "brick & mortar" outlets are positioning themselves to address how people shop in a mobile and digital world.

Know that mobile technology has absolutely changed shopper behavior. Consumers are empowered to engage retailers in ways that were largely unavailable even 10 years ago. And, they're taking advantage full advantage of this to shop on their terms at their preferred time in-store or online. Further, they have higher expectations around price transparency and customer service, given the global access to information in a connected world.

Demographic changes in the population, especially influenced by "the graying of America," and increasing racial & cultural diversity, are also having profound influences on the retail environment. For example, baby boomers, as they age, are reflecting an interest in health & wellness. This, in large part, has contributed to the mainstreaming of fresh, all-natural and organic foods. Similarly, the increasing diversity in the US population has led to bilingual packaging, specialty grocery stores and the broadening of tastes, reflected on restaurant menus and in the flavor offered in packaged foods.

Wage pressure is another factor that retailers will need to manage to ensure their viability. While wage growth is a positive for store employees, the cost of labor is a significant concern in businesses already working with thin margins. To ease these pressures, expect investments in automation, such as self check-out, and reductions in staff, which will mean expanded responsibilities for associates.

Yet, despite the challenging environment, there are many reasons to be optimistic for the future of retail. First and foremost, we are likely moving into a period of experiential shopping, where the store environment becomes central to the retail experience. Stores will become more immersive and interactive, sources of "retailtainment." And, in these settings, the associate plays a vital role, expert in the product assortment and service. Second, there appears to be a rise in specialty stores, such as butchers and bakeries, where customization and service replace mass production and scale. To be sure, retail is undergoing dramatic change. Thus, it's critical that we understand the alternative formats and identify how we can most effectively compete with them, whether we're selling a simple can of soup or a unique customer experience.

MODULE 3: MULTI-CHANNEL RETAILING

WHY IT MATTERS: MULTI-CHANNEL RETAILING

In the previous module, you spent time learning about changes in the grocery industry over the past 20 years, reflected in the emergence of new distribution channels and non-traditional formats. While this has dramatically changed the competitive landscape, it's important that we also consider how the rise of technology is changing shopper behavior. These are changes that will further alter the retail landscape, as channels are blurred.

Online, engaged and connected without interruption, Consumers have high expectations for their shopping experience, the speed of fulfillment and customer service. They easily shift among a host of retail formats and channels to suit their needs. Online and offline, in-store and at-home, they engage with brands and retailers, expecting accessibility, consistency, and service.

Consider this example:

On a social network, a consumer sees a post from Pillsbury™, announcing the winners of the annual Pillsbury™ Bake-off. Interested, they search for past winning recipes and find themselves at Pillsbury.com. Inspired, they find a recipe they want to try and plan a trip to Schnuck's, their local supermarket, where Pillsbury items are available on-shelf.

Think about the implications of this:

1. When the consumer chooses to engage, they expect to find Pillsbury™ present on social networks and online–accessible.
2. Engaged, the consumer expects an experience similar to past interactions with the Pillsbury™ brand, regardless of whether it is on a social network, on-line or in-store. They expect the same style, tone and quality–consistency.
3. The consumer expects that they can accesses the information and products they want from Pillsbury™ quickly and easily–service.

For retailers, the bar is potentially higher. Think again about our consumer researching winning recipes from the Pillsbury™ Bake-off. What if they had already made their weekly trip for groceries and weren't planning another? What if Schnuck's doesn't carry everything they need? What if they can open another page on their phone or tablet or computer and place an order for those same groceries on Amazon.com or through InstaCart right now, without leaving home?

You see, not only do consumers have the same expectations of accessibility and consistency for retailers, but they may have elevated expectations around service regardless of whether it's online or offline. Specifically, they may also expect that retailers will accept orders online, complementing and copying in-store service while adding delivery.

What does this imply about how manufacturers and retailers must manage channels going forward?

INTRODUCTION TO SINGLE CHANNEL, MULTI-CHANNEL, AND OMNI-CHANNEL RETAILING

Technology has enabled consumers to search and shop across channels very easily, blurring the differences between them. In response, manufacturers, especially those with leading brands, have worked hard to develop their presence in alternative channels to capitalize upon all outlets. As a result, retailers are at a crossroads, left either to develop similar multi-channel capabilities or commit to a single channel—their brick & mortar stores.

DESCRIBING RETAILERS AND CHANNELS

LEARNING OUTCOMES

- Define single channel, multi-channel, and omnichannel retailing

Marketing channels, also known as distribution channels, are the ways that products or services get from the producer to the consumer. All of the activities in between are part of a product's distribution channel. This includes:

1. Logistics: assembly, warehousing, and transportation
2. Facilitation: channel coordination, marketing, promotion, financing, and post-purchase service and maintenance
3. Transaction buying and selling

These activities support the exchange of goods, transferring products and services to the consumer, and transferring payments back to the producer. Over time, only value-added activities remain part of a given channel to reduce costs and ensure efficiency.

Earlier, we described the distribution channel for a can of soup. After being produced, it will be warehoused either on-site at the manufacturing facility or at a central distribution center until it is ordered by a retailer. Once ordered, it will be shipped to their warehouse and bundled with other items to be trucked to an individual store. At the store, it will be unboxed and put on the shelf to be available for shoppers.

This example reflects not only the functional activities (logistics, facilitation and transaction), but also identifies groups involved:

- Producers (manufacturers, farmers or craftsmen)
- Intermediaries (warehousers, logistics providers, wholesalers, financiers or credit providers, retailers, etc.)
- Consumers (the individual or institution making the buying decision. Note that the focus is on the individual making the buying decision because the end users of some items, such as baby or pet care products, are not engaged in the transaction.)

It is worth nothing that not all groups are involved in each marketing channel. In fact, marketing channels are distinguished by how the individual groups manage logistics, facilitation and transaction. The four marketing channels are as follows:

- Direct: Producer to consumer
- Indirect: Producer to intermediary to consumer
- Dual: Distribution to consumers through multiple channels, often determined by the producer and their development of intermediaries as channel partners
- Reverse: User to beneficiary (Note: this is an uncommon channel and one that most applies when existing goods are recycled or repurposed to re-enter the market.)

In direct distribution channels, producers market and sell their products directly to the consumer. In doing so, the producers absorb the activities and costs associated with logistics, such as warehousing and distributing their goods. However, as a trade-off, the producer has greater control over the marketing, pricing and promotion of their items. Further, because they interact directly with the consumer, they can benefit from unfiltered feedback, allowing them to optimize products, services, promotional activity or other elements of the customer experience.

Direct channels are common in commercial settings, especially where products and services are customized for individual customers, like enterprise software or industrial components. Tesla is an example of a manufacturer using a direct channel in the consumer space, as they market their cars directly to consumers without going through a dealer network. Catalogue marketing is another good example of direct channels in consumer goods. Similarly, the internet serves as a direct channel that many brands have used to broaden their reach.

Indirect channels are very familiar to us because it’s what we most commonly associate with retail, especially in the grocery industry. In indirect channels, producers sell part of their inventory to a collection of wholesalers and retailers who market the product to consumers. While the inclusion of wholesalers and retailers as intermediaries does add some complexity, it also has critical benefits. It allows the individual producers and intermediaries to specialize, increasing efficiency and reducing cost. It also mitigates risk for producers because they don’t own the entirety of their inventory. For the intermediaries, they will realize greater revenue for the product than the producer would have, but they’ve also taken on some risk by buying the product.

Dual distribution describes any marketing arrangement where the manufacturer uses multiple channels to distribute a product. For instance, they may sell directly to end users as well as through other companies for resale. Think about Apple products, which can be purchased through a direct channel either on Apple’s website or at the Apple Store or through an indirect channel at a mass retailer like Target or specialty retailers like Verizon or AT&T stores.

Understanding channels, their implicit activities and their actors, is important because it helps us understand:

1. How products or services get to the end user and payments are transferred back to the producer
2. How channel partners mitigate risk and add value to the supply chain
3. How and why firms select specific marketing channels
4. How elements of the marketing mix (product, price, place and promotion) can be affected.

SINGLE CHANNEL, MULTI-CHANNEL, AND OMNI-CHANNEL RETAILING

LEARNING OUTCOMES

- Match descriptions of retailers with single, multi, or omni-channel retailing

Let's imagine you're planning to buy a new phone. How would you decide on the right one? Would you research online? Would you go to the manufacturers' websites? What about blogs where users give their feedback and product reviews? Would you visit a store to see all the options in-person, asking the associate questions about performance and how each phone compares to the others? Once you're confident that you've found what you want, would you buy it immediately? Would you compare prices at other retailers or wait for a sale? Would you buy it at a mass merchant or at a specialty retailer? What about online… directly from the manufacturer or through a retailer's website?

Clearly, there are lots of options for how you can shop for and purchase an item. As you think through your own habits and purchase behavior, you can probably think of situations where you have done nearly all of these things. As a consumer, you are constantly balancing multiple decision factors like product availability, convenience, and value.

What you might not realize is that your path from search to purchase as a customer passes through and between multiple marketing channels, putting them in contrast and conflict with one another. Retailers certainly understand this and the necessity to be present in multiple channels to ensure that they can provide value and satisfy customer needs.

Think again about Apple products, which we referenced in the last section and are available in several channels. How can a manufacturer develop multiple channels simultaneously? In operating a direct channel with their website and their physical store, don't they also put themselves in conflict with their partner retailers?

Simply put, yes. There is definitely a risk for channel conflict, which is why manufacturers must work well with their channel partners to ensure they do not alienate one another. This is happening for Apple and countless other manufacturers because consumers are no longer shopping and transacting in single channels. Furthermore, they expect accessibility, consistency and service, regardless of how they engage with their favored brands and products.

As such, it's necessary for us to move beyond our understanding of marketing channels and consider how firms manage them. Their strategic options are single channel, multi-channel, and omni-channel.

Single channel refers to a producer or retailer's effort to reach customers through only one distribution option, regardless of whether it's online, face-to-face selling or traditional retail. Multi-channel refers to a producer or retailer's effort to combine and blend different distribution channels to accommodate where and how consumers shop, ensuring that the producers and retailers will be present when the purchase decision is made. Omni-channel marketing is an expansion of the multi-channel concept by incorporating all the communication and interactions between customer, brand, and retailer, regardless of whether it's at a point of purchase or not.

The development of channel strategies reflects the effort to provide accessibility and service to consumers, understanding changes to their shopping behavior and needs. But, doing this effectively across multiple channels demands rigor to ensure consistency in message, tone and experience.

KEY DIFFERENCES BETWEEN SINGLE CHANNEL, MULTI-CHANNEL, AND OMNI-CHANNEL RETAILING

LEARNING OBJECTIVES

- Explain the main difference between multi-channel and omnichannel retailing

Think again about your own shopping behavior. Perhaps you're frequently in-store to see the products in-person. Maybe you shop on-line, visiting the store or brand's websites? Are you connected with retailers or brands on Facebook? Do you follow them on Twitter to learn about new items, special releases or sales? Have you checked on Instagram to find them? Do you participate in fan boards or blogs to track updates or read reviews?

It's possible that many, if not all, of these activities are reflected in your shopping behavior. Many of these behaviors are very common, as shopper behavior has undergone radical change, supported by greater access to technology and heightened expectations around service and responsiveness.

Why then, with so many channels available, would a brand or retailer choose to engage in anything other than the multi-channel? Simply, there are certain advantages and disadvantages to each channel strategy. That is, not all firms have the need or are capable of managing the expense of maintaining multiple channels well, especially knowing consumers' requirements for accessibility, consistency and service.

Single channel refers to a producer or retailer's effort to reach customers through only one distribution option, regardless of whether it's online, catalogue, mail-order, face-to-face selling or traditional retail. This approach reduces marketing investments and organizational complexity. However, the risk with this approach is missed selling opportunities as customers shop alternative channels. This is particularly risky, given how connected and empowered consumers are in the digital age. Weber Grills and Jacuzzi Hot Tubs are both examples of manufacturers that sell through established dealer distribution networks.

Multi-channel refers to a producer or retailer's effort to combine and blend different distribution channels to accommodate where and how consumers make purchases, ensuring that producers and retailers will be present when the purchase decision is made. The objective is to make it easy for a consumer to buy in whatever way is most appropriate for them. Multi-channel marketing allows the firm to reach its prospective or current customers at the point of purchase in a channel of their liking. Most firms with which you interact are engaged in multi-channel marketing, if not omni-channel marketing.

A multi-channel marketing strategy needs to be supported by good organizational discipline and infrastructure. At the most basic level, firms with a multi-channel strategy must ensure that the details and prices of goods are consistent across channels. To be most effective, they should also be mindful of the contribution each channel delivers to the company's revenue and profit. To do this, they would need to track marketing spend in each channel and review metrics like customer response, conversion rate and loyalty to get an accurate picture of return on investment.

As you can clearly see, moving from a single to multi-channel strategy requires increases in structural support, including systems, analytics, and capital, to ensure consistency in service. This intensifies further with an omni-channel strategy, given that it is an expansion of the multi-channel concept.

The emergence of digital technology, social media and mobile devices have led to significant changes in the retail environment, as firms leverage connectedness in an attempt to be present in all channels of interaction. The omni-channel concept not only recognizes the range of channels available to consumers to transact, but also considers the varied interactions in the shopping process that consumers have before, during, and after purchase. The omni-channel isn't merely concerned with transactions, it also incorporates the needs, communications, and interactions between customer, brand, and retailer. Thus, it's important that websites, e-mail campaigns, social media messaging, and physical stores all show consistent messages, offers, and products.

Further, given consumer expectations around accessibility, these channels must also be customer-centric in their service orientation. This requires having appropriate content and responsiveness for an array of possible consumer interactions. It requires that firms maintain multiple platforms through which consumers engage. For example, think of how expectations have changed around online presence. At one time having a company website with location addresses, phone numbers, operating hours and product descriptions was sufficient.

By comparison, consumers now expect company websites to have value-added content, like product information, ratings & reviews, recommendations, and troubleshooting tips. They expect high-resolution photography and video. And some consumers prefer to engage over a wide variety of other media like social networks, not just .com.

Consumers are able to supplement the information they get about products in advertising and in-store with information they search for themselves. They use technology to search independent sites for user reviews and product ratings, as well as for promotional offers. In this environment, manufacturers and retailers must have a service orientation to ensure that consumers can get what they want when they want it. This requires a tremendous amount of content, which needs to be sourced or created and curated.

In that same way, most consumers expect manufacturers and retailers to have e-commerce capabilities. This doesn't just reflect a need to be able to complete transactions, but requires having a system robust enough to maintain current inventory information, collect and securely store payment information, record order details for accurate fulfillment, and initiate shipping.

It's clear that the opportunity to be present in all channels of customer interaction carries incredibly high costs. System requirements increase, especially around business intelligence and customer relationship management. The breadth and depth of content expands, meaning that there's a need for creative production and curation. There are related demands for analysis and customer service to ensure the customer experience. And, of course, there's a need for security to ensure that consumer information is protected.

Technology has enabled consumers to search and shop across channels very easily. In response, manufacturers and retailers have developed their presence in alternative channels to capitalize upon all outlets. Yet, there are limits to how easily firms can pursue a multi- or omni-channel strategy. Not all firms have the need or resources to maintain multiple channels well. But, for those that can, managing multiple channels of interaction means that they must be present and engage consumers well at all points in the shopping process.

INTRODUCTION TO NON-STORE RETAIL CHANNELS

It's easy to confuse "retail" with the brick & mortar store experience. Or, if thinking of non-store retailing, extend "retail" only to the on-line domain. But, it's important to expand this consideration to include multiple alternative outlets to get an understanding of the wide breadth of retailing, outside store formats, including: e-commerce, catalogues, and even vending.

RETAILERS AND NON-STORE CHANNEL TYPES

LEARNING OBJECTIVES

- Match a retailer description with its non-store channel type

Non-store retailing is the selling of goods and services outside the confines of a retail store, off the premises of fixed retail locations. This distribution channel can be divided into direct selling and distance selling.

Modern direct selling includes sales made through one-on-one demonstrations, hosted product sales events in-home, and other personal contact. Direct selling consists of two main business models: single-level marketing and multi-level marketing.

In single-level marketing, a direct seller buys products from a parent organization and sells them directly to customers. In multi-level marketing, also known as network marketing and person-to-person marketing, the direct seller may earn money from both direct sales to customers and by sponsoring new direct sellers, potentially earning commissions from their efforts. Amway, Avon and Tupperware engage in this form of multi-level marketing.

Distance selling includes:

- Mail Order
- Catalogue Sales
- Telephone Solicitations
- Automated Vending
- Electronic Commerce (e-commerce)

Non-store retailing, sometimes labeled 'home shopping', is a relatively small portion of the total retail activity in the United States. However, it's growing significantly, led by the expansion of e-commerce.

According to the Census Bureau of the U.S Department of Commerce, e-commerce sales accounted for 8.9% of total retail sales in 2017. Estimated at $453.5 billion, they show a 16.0% increase over 2016 levels. Perhaps even more telling is that total retail sales grew at only 4.4%. This means e-commerce is growing 3.6 times faster than other retailing in the United States.

Since 2010 and continuing through 2017, e-commerce sales have grown at around an 11.7% compound annual growth rate (CAGR). It is in this growth rate that we see the changes in consumer behavior we've discussed throughout these sections reflected. Namely, connected consumers are using technology to engage with brands and retailers. And, in doing so, they're blurring channels, without changing expectations for accessibility, consistency or service.

COMPARISON OF STORE, CATALOG, AND INTERNET CHANNELS

LEARNING OBJECTIVES

- Compare and contrast the benefits of store, catalog, and internet channels

The most pronounced difference between store and non-store retail channels is the cost structure. Retail stores have comparatively higher costs than their non-store counter-parts because their costs include rent, utilities, inventory, and staffing. By comparison, non-store retail outlets have eliminated rent and utilities and greatly reduced carried inventory and staffing.

It's for this reason that non-store retailing is used by established brick & mortar retailers to expand channels with a "brick & click" model and by entrepreneurial firms developing a pure play distribution channel, which is exclusively through e-commerce. It shouldn't be assumed that non-store channels are without costs of their own. There are many specific to catalogs and e-commerce, which we'll discuss below. However, they pale in comparison to the costs of brick & mortar retail.

Catalogs, when effective, are high-involvement marketing materials. Consumers leaf through the pages reviewing wide product assortments. As such, they have long been used as a marketing device to drive phone and in-store sales. But as online retail has continued to grow, catalog sales have eroded. No longer are catalogs the most effective or convenient methods for developing at-home sales; their place as a marketing tool has been under scrutiny.

Yet, some industry experts note that catalogs are changing–a reflection of their evolving role in the retail landscape and with the assumption that lower delivered mail volume means they'll get more attention. Interestingly, in a survey on its website, Land's End found that 75% of customers making a purchases had reviewed the catalog first. (Note: http://www.nytimes.com/2015/01/26/business/media/catalogs-after-years-of-decline-are-revamped-for-changing-times.html?_r=0). This might imply that catalogs have a complementary role with e-commerce. Perhaps, in being reimagined, they will become resources to merchandise products through visual narratives and encourage consumer engagement.

Of course, catalogs carry their own unique costs, which shouldn't be overlooked. Chief among these are creation, photography, copy, layout, and design. Further, there are printing and mailing costs to be considered. These are not insignificant, to be sure. Yet, retailers like Costco, Nordstrom, William-Sonoma, and others combine to send over 10 billion catalogs annually in the U.S.

E-commerce refers to buying or selling products and services online or over the internet on retailers' Web sites or mobile apps, or through marketplaces such as on Amazon or AliBaba. Given our own experience with e-commerce, it might be tempting to oversimplify the channel. But, it's important to understand the interactions and activities at-play, as these reflect some of the implicit costs.

For example, digital marketing, including both Search Engine Optimization (SEO) and Search Engine Marketing (SEM) is used to connect sellers with potential buyers (Some social media platforms can also be used for the same ends). SEO requires web development, optimization, and maintenance to ensure the online visibility of a firm's website in natural or organic search. SEM is a form of paid advertising that increases the visibility of a firm's website in search engine results, such as through Google or Bing. Firms bid on keywords to ensure that when searches using those keywords are made, their website appears among the search results.

Individual shopping interactions may be supported by live chat or chatbots on websites. Regardless, transactions require online transaction processing, including electronic funds transfer and inventory management. Further, the collected data on the transaction and shopper may be warehoused in a database for future customer relationship management (CRM) initiatives. These support tools require investment and maintenance, which are costs that should not be overlooked.

INTRODUCTION TO ELECTRONIC RETAILING

As we begin, it's necessary to distinguish between electronic retailing (e-tailing) and broader e-commerce. While closely related and sometimes used synonymously, e-tailing is actually a subset of e-commerce. That is, e-commerce refers to any exchange of goods on-line, while e-tailing refers specifically to retailing on-line. This, of course, doesn't minimize e-tailing, as it's an important element of overall retail activity and a critical channel for producers, retailers, and consumers.

ROLE OF THE WEB TO RETAILERS

LEARNING OBJECTIVES

- Define the role of the web to retailers

Let's think again about your own shopping behavior. What was the last thing you bought on-line? Why did you decide to purchase it this way? Was it the only way the item was sold? Was it the most convenient way to shop? Was it because you were able to shop easily, getting product information and comparing alternatives? Did it offer the lowest price? Did you go to a manufacturer's site? Or, did you buy it through a retailer? What about a retailer that's exclusively on-line like Amazon? Your own answers to these questions provide much of the detail for why e-tailing is important to retailers.

The overarching benefit of e-tail is that it extends the reach of retailers to more consumers. However, this isn't just about physical reach and expanding beyond the four walls of a store. Instead, e-tailing also helps retailers engage consumers without the limits of store hours, available staff, and inventory on the sales floor or in back-stock. E-tailing makes the full resources of the retail organization available to shoppers without constraint.

Certainly, we understand that e-tailing allows retailers to reach consumers outside their immediate market, pushing past individual store locations to reach distant or previously inaccessible customers. But, another key feature of e-tailing is that it is always "open," so shoppers are not only able to access stores more easily, but they're also able to shop when it is most convenient for them. This shifting of place and time elevates convenience.

Further, e-tailing can also have a positive impact on customer service for retailers. Think about times when you've been shopping in-store, unable to find an associate for assistance or finding one who wasn't able to answer your questions well. What about times you were shopping for a specific item, only to find it wasn't available in your size or in the preferred color or available in-stock at all. Those frustrations of customer service can be mitigated and minimized with effective e-tailing.

E-commerce sites can be a direct line to the consumer to provide service and support, when they are well well-maintained by retailers. To be well-maintained, they must be secure, easily navigated, optimized for desktop and mobile navigation, and updated with current product and promotional information.

Effective e-tailing relies on systems that provide product information, inventory tracking, promotional offers and secure transactions. Thus, it's possible for an interested shopper to visit an e-tail site, review products, ask questions, make selections and check-out, selecting from multiple delivery options. Later, they can revisit the site to track the progress of their order and estimated delivery time.

Another benefit of e-tailing is that retailers are able to fulfill orders by accessing inventory across their full distribution network. Instead of relying on the allocation of product to individual outlets, e-tailers can pull from reserve inventory to fulfill orders. This is especially helpful in product categories that have multiple size or color offerings. Consider how home goods like towels are managed on-shelf. An individual store receives a shipment of multiple sizes, across an assortment of colors. If a given size or color sells-out, the retailer waits for a replenishment order, potentially missing a selling opportunity due to "out of stock" issues. However, in e-tailing, the retailer is able to pull inventory from a centralized location, or perhaps from a better stocked store location, to fulfill the customer order.

Further, retailers are able to gather a tremendous amount of information about their customers through e-tailing. They can monitor how many visits their site receives, even determining which visitors are new and which are returning. They can track what pages are viewed most frequently and how much time shoppers spend on them. They can identify what products are purchased most and what items are frequently purchased together. They can assess how changes to price or positioning affect product sales. They collect shopper information, including shopping frequency, items shopped, size of purchase, e-mail addresses, physical addresses, and payment information.

True, the collection and use of this information could feel like an over-reach and an invasion of privacy. But, some consumers freely enroll in customer relationship management (CRM) programs, inviting the retailer to continue marketing to them. In turn, retailers develop better understanding of the customer's preference, making better recommendations about complementary items or providing guidance on product usage. This is potentially value-added and expands the customer relationship.

In all, e-tailing can be a tremendous benefit for retailers, making them more accessible to customers and providing enhanced service, during the shopping process and beyond through CRM programs.

ADVANTAGES AND DISADVANTAGES OF ELECTRONIC RETAILING

LEARNING OBJECTIVES

- List some advantages and disadvantages of electronic retailing

As you learned in the previous section, e-tailing has some tremendous benefits for a retailer. It allows the retailer to reach consumers outside their immediate market area, as well as makes the retailer more convenient, as consumers can shop when and where they want, regardless of actual store locations or hours. It also maximizes the retailer's ability to fulfill orders, as they pull from reserve inventory across their distribution network and it elevates the retailer's customer service by providing shoppers direct access to product information, accurate inventory tracking, current promotional offers, and secure transactions. Finally, it provides a tremendous amount of information for the retailer, which can be analyzed to make adjustments to their operations or deployed to develop CRM initiatives with shoppers

These factors can be developed to create competitive advantage and deepen customer relationships. However, e-tailing does present some risks, which can disadvantage a retailer.

For example, developing and maintaining e-commerce infrastructure is very expensive. E-tailing capabilities require web development, optimization, inventory control, data security, and order fulfillment. These aren't "one-time" costs. Instead, they're recurring, which means that a retailer engaged in e-tailing must be resourced to maintain its online presence. This includes systems that reflect current inventory and are updated to show changes in merchandise, pricing, or promotional activity.

In addition, e-tailing does not provide the same social or emotional experience as in-store shopping for the customer. Products are merchandised on a two-dimensional screen. They cannot be touched, handled or experienced. They cannot be tried on or sampled. Also, because of how they're merchandised or displayed, it may be more challenging for e-tailers to cross-sell complementary items. In this way, e-tailing may be effective transactionally, but may not easily support expansion of the shopping basket.

Further, for high-consideration items, e-tailing may lack the customer support shoppers prefer to experience. That is, for involved purchases, shoppers may want to engage with a saleperson to ensure that they fully understand the product features and benefits they're considering. Further, they may be interested in recommendations or product add-ons like accessories or extended warranties, which aren't automatically offered in online transactions.

Another consideration is that shoppers are responsible for the return of incorrect purchases. This is important if there are return restrictions, such as within a specific time period or "in original packaging," or if there is a cost associated with shipping or restocking the item. These can be detractors and create a negative shopping experience.

The final negatives to e-tailing, which can create disadvantages for the retailer are related to security and privacy. Data breaches, which have compromised consumers' personal and financial information, may make consumers apprehensive about the volume of transactions they make online. Further, they may raise questions about the level of security of e-tailers, especially as it relates to protection of payment information. Similarly, consumers may be reluctant to share their personal information, which will be used for ongoing marketing initiatives. While CRM programs, over time, should reduce marketing clutter and allow for customized offers, they can be construed as intrusive and a violation of the customer relationship. If not managed well, concerns around security and privacy can undermine e-tailing efforts.

MOBILE APPS AND CUSTOMER INTERACTION

LEARNING OBJECTIVES

- Compare and contrast the benefits of mobile and internet channels
- Explain how mobile apps can increase customer interaction

Mobile software applications or “Apps,” as they’re most commonly known, are computer programs designed to run on mobile devices like smartphones and tablets. They are distinguished from desktop or web applications, which run on desktop or laptop computers and web browsers, respectively. Originally, apps were developed as productivity tools and for information retrieval, but the growth of smart phone and tablet markets, combined with people’s comfort using apps, has led to their popularity.

Because apps run on mobile devices, which have finite battery capacity and span a wide array of hardware design and screen sizes, there are design constraints in developing apps. They are not just scaled down versions of websites; instead, they are designed with an interface to support specific activity and functionality. As such, they can be meaningful transaction tools for consumers. In fact, app comerce is said to perform better than both desktop and mobile web when it comes to browsing duration and interactions. Average order value is reportedly greater with retail apps than traditional e-commerce, and conversion rates on apps are twice that of mobile websites.

One of the reasons apps have better consumer engagement is that they’re specifically designed for the needs of a mobile user to facilitate transactions. That is, they can leverage mapping technology, tie-ins with social media and stored payment methods to make transactions nearly frictionless. Take, for instance, the app published by Starbucks. Not only can it be used to locate nearby locations, but patrons can order and pay through it also. In fact, consumers can even earn points that can be redeemed for merchandise on future visits.

In this way, the app supports engagement with the brand and its products. It identifies nearby locations, reduces wait times, and offers payment flexibility, which may support upselling as customers can used stored credit/debit information and are not limited by their cash in-hand. Further, the collection of points adds an element of gamification and reward, which can increase patronage and loyalty.

Amazon, for its part, offers an app for users. And, while it does lack some of the functionality of its website, shoppers can easily use the app to complete transactions. For an e-tailer like Amazon, the app is a powerful tool because it enables a consumer to search for items, read customer reviews, compare prices, review similar and/ or complementary items and complete the transaction using their stored credit card information. More importantly, because the app is available on mobile devices, it supports consumer search and shopping on-the-go and at the moment of inspiration.

Mobile apps are helpful tools for consumers and for firms because they’re focused on specific activities. In the world of e-tailing, this focus is upon supporting transactions. As you can see with the examples from Starbucks and Amazon, this can be done very effectively to deliver high levels of customer service and customer value.

INTRODUCTION TO CHALLENGES OF MULTICHANNEL RETAILERS

Multi-channel retailers work to engage shoppers at the point of purchase in a variety of channels, in order to be present where and when these potential customers are ready to buy. The complexity of doing this effectively continues to increase as outlets, especially those online, multiply: branded websites, e-commerce sites, apps, social media and marketplaces. Thus, a multi-channel marketing strategy requires organizational discipline and infrastructure to ensure that the customer experience is consistent across channels.

MULTICHANNEL FACTORS TO CONSIDER

LEARNING OBJECTIVES

- Identify the factors that need to be adjusted depending on the channel

As you've read, organizational discipline and infrastructure is critical to managing a multi-channel marketing strategy. Specifically, firms need to ensure that consumers, regardless of channels, receive consistency and service during their shopping experience and beyond. Common areas where this can go awry are pricing, promotion, analytics, and technology.

It begins with the customer journey. That is, the specific path to purchase taken by a shopper as they consider, research and ultimately make a purchase. This path is rarely a straight-line. More likely is that it includes multiple iterations, activities, technology and channels. It might be useful to think about a shopping experience to add context to the customer journey.

Let's plan a trip to Disneyworld in Orlando, FL. We need to consider flights. Where should we look for the best options? Should we go directly to the airline? Delta.com? What about an aggregator like orbitz.com or expedia.com? Would it make sense to search for travel packages? Maybe we should look at Disney's Facebook page to see if there are special offers or programs being promoted. How would the search be different for hotels? Would we search marriott.com or hilton.com? What about Disney properties? Or, is our best option an aggregator? The same ones or should we include hotels.com? Should we check Google to find out how far it is from the parks? Maybe we should consider on-line reviews also. There are a lot of blogs to read, if we want. Do we know anyone who has visited recently? Let's e-mail them to get their recommendations. Think about the questions that arise and the searches that they've inspired. Imagine the screen of your phone, tablet or computer. How many browsers, search tabs, or apps are open? Do you see where this customer journey has carried you, before we even consider think about the park tickets, rides and characters?

The Customer Journey helps us understand the multiple touch-points consumers have, before they transact. And, equally important, the instances when they could leave the path to purchase, preferring a different channel instead. With this as the backdrop, let's think through again the factors to consider in multi-channel marketing.

Pricing

For our imagined trip to Orlando, we considered shopping for flights on delta.com, orbitz.com and expedia.com. What were we shopping for? The most convenient schedule or the lowest fare? Let's assume it's the latter, and we wanted to find the cheapest possible flights for our trip. What's the message you get if you're able to find cheaper flights on orbitz.com than on the carrier's own website? What would this mean for Delta if flights purchased outside their system were less expensive?

While our planned trip is a simple example of how prices can change across channels and outlets, it underscores the challenges in managing pricing. Firms can manage around this, if they invest and engage in product information management (PIM). These systems help firms by managing product information, which is released to other media, like web sites, print catalogs, and data feeds to trading partners. Without them, however, firms will have difficulty maintain price consistency across channels.

Promotion

Like our consideration of pricing, firms need to be conscious of how promotions are delivered across channels. Consider our hotel room search. How would we react if we found an offer on hotels.com that wasn't consistent or available from hilton.com?

Firms have finite marketing budgets and a growing number of channels in which to spend them. However, without a clear understanding of the path to purchase, channel roles in each step, and attribution of what each channel contributes, marketers are left making uninformed promotional investments. With better data, firms can target promotional activity in the correct channel at the correct point in the customer journey to support the overall path to purchase.

Analytics

Let's move forward in our planning for Disneyworld. We've purchased a vacation package through a travel agency we found on-line. The firm continually invests in search engine optimization to ensure that their site is easily found, when shoppers search for vacation packages. They engage in search engine marketing to ensure that they are a top listing on specific consumer searches like Orlando + Disney + Packages. They maintain a Facebook site, where they share the comments of happy customers who have booked through them. They have an Instagram feed where they do the same, posting others' vacation pictures.

With all these channels and all this activity, which requires investment, how does the travel agency know what interaction with a shopper tipped the shopper to visit or to call or to buy? Did a shopper visit each channel or only some? Did they spend time equally at each or not? Are they all equally important, or does one matter most?

The challenge of analysis and attribution is important because it helps you understand shopper behavior throughout the customer journey and illustrates where and how to make investments by channel. Further, attribution can help you understand how each channel performs, which can help you optimize for the best possible customer experience to support conversion, repeat purchases, and loyalty.

Technology

Technology underpins so much in supporting a multichannel marketing strategy. As you've read, a PIM system manages product information to be shared with other media. In the same way, inventory management systems add transparency in product availability—inventory control, shipping and distribution. And, attribution models help firms understand how consumers engage across different channels, media and assets. In using these tools, and others, firms can ensure consistency and service even across multiple channels.

Firms pursuing a multi-channel marketing strategy need to ensure that consumers, regardless of channels, receive consistency and service during their shopping experience and beyond. This requires a full understanding of the customer journey, so that the firm understands all possible points of interaction with the customer and their needs at each point. To have consistency and good service, firms must maintain focus on pricing, promotion, analytics, and technology.

CUSTOMER IMPRESSIONS AND THE SEAMLESS EXPERIENCE

LEARNING OBJECTIVES

- Describe what a customer would consider a seamless experience across channels

As you've seen throughout this chapter and in examining your own shopper behavior, consumers engage with companies through any number of channels—brick & mortar, social, .com, chat and more. Moreover, consumers want consistent, seamless, and collaborative interactions, optimized for whatever channel they've chosen. That is, consumers select the channel that is best for them at the time, making changes when there is interruption or when there is a better channel fit. As such, managing multi-channel or omni-channel marketing strategies means designing efficient channel transitions so that consumers do not feel they're engaged in episodic interactions but part of an on-going engagement.

Think again about the example we considered with the Starbucks app. The purchase of a cup of coffee is a low engagement activity. However, think about the effort that Starbucks has made to make that single transaction as seamless as possible. Yes, the majority of activities take place within a single channel, the app, but potential roadblocks like finding a store location or placing an order, have been removed. Further, stored payment information reduces the friction in processing the transaction.

The most effective firms are taking a similar approach, when considering how consumers navigate across and between channels. For example, airlines provide access to reservations from desktop, tablet, or phone. During the interface, consumers can update their frequent flyer information, change seats, or inquire about alternative flights. Changes made in one channel are reflected across the others. Further, after check-in, which can also be done across multiple media devices, consumers can elect to have boarding passes sent a number of ways—print at home, e-mail, text. E-mail and texted boarding passes can be saved on mobile devices for use at check-in, security, and boarding. For the consumer, there is seamlessness to the user experiences (UX), adding consistency and assuring service.

What makes this possible and pleasant for the consumer is that the firm's marketers have worked to understand the customer journey, identifying potential roadblocks, triggers and next steps in the decision flow. That is, these firms understand how customers move on the path to purchase. In doing so, they can identify and address potential "pain points" that inhibit customer service or transactions.

This process begins by understanding key activities or decision points in the path to purchase. Then, researching how consumers complete them, ask "Do they stay within a single channel, or do they need to transition to another, such as from app to website? From .com to store location?" More specifically,

- Are there specific activities that require transition from one channel to another? For example, if buying on-line and picking up in-store, does the retailer provide a confirmation number via text or e-mail that can be scanned from a mobile device? Or, does one need to print a hardcopy receipt?
- Is the experience optimized for the specific channel interface? That is, are content pieces and activities appropriate for changing usage contexts, like on the go vs. in-home, or technology, such as screen sizes or processing speed?
- Are there systemic roadblocks, which prevent shoppers from completing transactions or discourage them from using the tools in the future?

Many issues with the UX result from a lack of coordination, as existing infrastructure has been "patched" to accommodate new channels and technology. Often, investment is required to integrate fully new channels with system capabilities. But, the issues may not just be related to technology. Too often, teams are siloed, meaning that different organizations have responsibility for marketing, sales, and operations in a specific channel, not across all outlets. When this occurs, the largest channel, usually brick & mortar, receives the highest level of investment. The result is that emergent channels that are growing more quickly are routinely under-funded, potentially compromising the user experience across the whole ecosystem.

It’s critical to remember that consumers want accessibility. However, they are not willing to trade consistency and service for additional access. They require a seamless experience across channels.

DATA TO SUPPORT THE MULTICHANNEL SHOPPING EXPERIENCE

LEARNING OBJECTIVES

- Summarize the data that could be collected to support the multichannel shopping experience of the future

Measurement of retail performance is important, but especially for multi-channel retailers as it provides a basis for comparing performance across channels. Among a number of other details, brick & mortar stores track:

- Traffic: the number of shoppers in-store within a given period
- Average Inventory: (beginning inventory for a period + ending inventory for the same period) / 2
- Return on Inventory: Revenue / Average Inventory
- Inventory Turn-over: cost of goods sold in a period / average cost of goods in inventory
- Gross Margin Return on Inventory Investment: (sales – product costs) / average inventory
- Cost Per Sale: marketing costs / sales revenue

Many of these same metrics are the same for e-tailing. However, fragmented channels, especially those that are not necessarily transaction-oriented, require different measures. Think about social networks or websites that provide engagement or information, but are not necessarily intended for transaction. How can we assess their impact? What about apps? How can their impact be measured, when they do not generally have comparable functionality to the firm's full website?

First, a firm will need to establish whether it is interested in having ongoing monitoring of performance or monitoring a specific campaign with a defined beginning and end.

Marketers consider a number of metrics that assess interaction and engagement online, using these as indicators of impact. Traffic is measured through website visits, separated by unique and returning, as well as hits, which are requests for a file from a web server, and impressions, which is the number of times an ad loads on a viewer's screen. They measure engagement through page views, duration of time spent on the site, and events, which includes clicks, page views, downloads, video plays, etc. Engagement is also measured by the click-through rate (CTR), which is the number of visitors who click on a link divided by the number of visitors who were served the link, and conversion rate, which is the number of visitors who complete any desired action divided by the total number of visitors.

For social networks, marketers track followers or friends to measure reach. They measure engagement in the context of likes, shares, mentions or retweets. For apps, meaningful measures might be downloads and the number of users in a given period. They also often measure daily active users (DAU) and monthly active users (MAU), which are the number of users that opened the app in a given day and month, respectively. Another helpful way marketers assess active users is to calculate the level of "stickiness" and app has for potential users. That is DAU/ MAU. This reflects how indispensible the app is implying that the higher the percentage the more users are returning to the app and engaging with it at a high frequency.

A final set of metrics for marketers to use to assess apps relates to profitability. The measures are cost per user (acquisition costs divided by total users), average revenue per user (revenue in a period divided by users during that same period) and gross margin per user, which is the average revenue per user (ARPU) minus the cost per user (CPU).

Overall, metrics for assessing retail performance are similar online and offline, focused upon measuring traffic and engagement. In tracking these metrics, retailers can be most effective in prioritizing channels and investing appropriately to support customer interaction.

PUTTING IT TOGETHER: MULTI-CHANNEL RETAILING

On-line, engaged and connected without interruption, consumers encounter brands and retailers, expecting accessibility, consistency, and service. They easily shift among a host of retail formats and channels–online and offline, in-store and at-home, to suit their needs. And, empowered by technology, they have high expectations for their shopping experience, the speed of fulfillment, and customer service.

Multi-channel retailers work to engage shoppers in a variety of channels. This isn't just about being present where and when these potential customers are ready to buy. Instead, it's about being accessible at every touch-point along the customer journey, regardless of where the shopper is in the path to purchase. It's an elevated level of customer service.

Yet, the complexity of doing this effectively continues to increase as outlets, especially those online, multiply: branded websites, e-commerce sites, apps, social media, and marketplaces. There is a consideration of content management, security, and analysis to ensure that each channel is optimized. Clearly, multi-channel or omni-channel marketing strategy requires organizational discipline and infrastructure. Yet, the value is clear as these marketing strategies allow retailers to be accessible, while offering the consistent service consumers demand.

MODULE 4: IDENTIFYING AND UNDERSTANDING CUSTOMER BEHAVIOR

WHY IT MATTERS: IDENTIFYING AND UNDERSTANDING CUSTOMER BEHAVIOR

Imagine you're in-store at your local supermarket, watching customers in the Dairy Section as they shop for yogurt. Think about the products on the shelves… the various brands, styles and flavors… Think about the different sizes and configurations—jars, cups, tubs and tubes… Think about product placement—eye level or in the bin at the bottom of the section…

Now, focus on a single shopper. Watch as they make their choice. What do you think made them select the one they chose? Was it:

- Brand?
- Flavor?
- Price?
- Health credentials?
- Advertising?
- Their previous experience?
- Their desire to try something new?
- Impulse?
- A recommendation?
- An accident?

What if it wasn't a single factor, but some combination of several of these factors that led to the consumer's decision?

What had the most impact? What had the least? Was anything irrelevant?

What if the shopper wasn't even conscious of the decision and what motivated it?

What if?…

As a retailer, you're trying to provide the broadest assortment and best possible value to help consumers select and purchase the products that are best for them, right? Well, think how much complexity shopper preferences and biases add… how much more difficult they make your job. For example:

- What products should be included in the assortment?
- How much space should be dedicated to specific brands? Sizes? Individual Flavors?
- Which segments, brands and products should go on each shelf?
- What signage and messaging will have the most impact for consumers?
- What prices should be set?
- Should products be discounted and put on-sale? How often? When?

Can you imagine the complexity involved in making the best choices for the department? Now, spread the same variables across all department, categories and segments. Think about the dozens, hundreds and thousands of small, instantaneous and considered decisions customers make when they're shopping.

Marketers study the Buying Process and consumer motivations in an attempt to understand how purchase decisions are made. And, in doing so, they work through how shoppers sort through and make sense of information, their explicit and implicit needs and models for how they make the decisions they do. We'll touch on many of these same topics in the coming sections.

INTRODUCTION TO THE CUSTOMER DECISION-MAKING PROCESS

No matter how similar consumers might appear to be, they are rarely the same. They do not move and act in uniform blocks. Instead, their needs, motivations, assumptions, beliefs, and biases are unique, informed by individual experiences and perspective. Thus, it's critical that marketers understand how to assess populations, identifying segments to target.

STEPS OF THE BUYING PROCESS

LEARNING OBJECTIVES

- Outline the steps of the buying process

There are a number of different models that describe the process or steps consumers engage in as they prepare to make a purchase, often depicted as a sales funnel. In this section, we'll evaluate three: AIDA, path-to-purchase, and the consumer buying process.

AIDA describes the buying process largely from the marketer's perspective. It stands for:

- Attention
- Interest
- Desire
- Action

That is, an advertiser grabs a consumer's *attention*, making them aware of the product or service that can satisfy that individual's identifiable need. Then, through the description of features & benefits, the consumer's *interest* is developed to the point of *desire*. At this point, the consumer becomes the actor and takes *action* to purchase the item.

The AIDA model is enduring, having been developed in the early nineteenth century. But, it certainly has limitations. Most notably, it regards the consumer as passive throughout the majority of the process. By comparison, marketers are the actors, sending messages to stimulate consumer demand.

In reality, consumers are driven by their individual wants and needs, not simply responding to the messages of advertisers. Advertisements can make consumers aware of offers or explain how products/ services satisfy an unmet need. But, they cannot create demand where a consumer want doesn't exist. More explicitly, no marketer, regardless of how insightful they are, can create an ad so compelling that it can force people to buy something they do not need.

Further, the AIDA model shows that the consumer experience ends at action, implying that on-going engagement either does not occur or is of minimal value for the consumer or firm. Of course, we understand this isn't true, given the value of service contracts, repeat purchases, and enduring customer loyalty. Thus, any model that describes the buying process should account for post-purchase activity.

Another model, the path-to-purchase model, refines the AIDA model to account for the influence of technology, specifically the rise of mobile access and e-commerce. The path-to-purchase model has come into use within the past decade, identifying four stages:

1. Awareness
2. Consideration
3. Conversion
4. Evaluation

Unlike the AIDA model or the sales funnel concept, which often show the buying process as linear, with consumers moving forwards or backwards from one step to the next, the path-to-purchase model is reflected as a wheel or web to account for the customer journey (how consumers access, process, review, revisit and process information across channels). As we learned in the previous module, consumers shop across multiple channels and access a host of sources for information. In accessing, considering, and consuming this information, the buying process moves dynamically, not in a straight-line.

Like the AIDA model, the path-to-purchase model describes the consumer as passive in the very first stage of awareness, where influencers can trigger interest or want. Again, advertisements, influencers, and other media can make consumers aware of offers or explain how products/services satisfy an unmet need, however, they cannot force interest or create demand where it does not exist. We need to understand consumers as seeking solutions to unmet needs, not as targets to be manipulated.

Recognizing the limits of AIDA and the path-to-purchase model, it's worthwhile to consider another representation of the buying process a consumer follows, which is represented by these six stages:

1. Recognition of an Issue or Need
2. Information Gathering
3. Evaluation of Options or Alternatives
4. Selection
5. Purchase
6. After-Purchase Evaluation

(Note: this model is often reflected in seven steps, where Identification of Alternatives and Considering Options are two distinct steps. For our purposes, we've combined them as Evaluation of Options or Alternatives.)

Recognition of an issue or need means that the consumer becomes aware that their current condition is not consistent with what they want. Next, the consumer begins to *gather information,* seeking out options that could satisfy their want. Once they've collected sufficient options, the consumer can begin to compare them, *evaluating options or alternatives* and making judgments about which is the best fit to satisfy their want. Ultimately, the consumer makes a *selection* and *purchases* the product/ service to satisfy their want. *After purchase*, and usually some consumption, the consumer *evaluates* whether they were satisfied.

Specific to *evaluation*, there are a number of dimensions on how to assess satisfaction. These include if the good/ service performed as expected, if it satisfied the want, if it was easy to use, if it was an appropriate value, if the consumer was well-supported, and if the purchase process was relatively frictionless. These *after-purchase evaluations* are vital considerations because they mix both objective and subjective assessments. Further, they measure relative customer satisfaction, which can influence repeat purchases, loyalty and referrals.

Regardless of whether referencing AIDA, the path-to-purchase model, or the consumer buying process, it's clear that consumers pass through a number of stages of engagement and activity, as they prepare to make a purchase. In doing so, we can begin to understand the activities and needs of the consumer at each step. Further, we can identify how best to approach the consumer to provide information and position our goods/services as the preferred choice.

CONFLICTING NEEDS OF CUSTOMERS

LEARNING OBJECTIVES

- Identify a situation in which a customer has conflicting needs

How can a customer have conflicting needs? If they need something, shouldn't it be clear what they want? How can there be conflict? We'll work toward this by evaluating needs in multiple contexts. First, we'll consider them as abstractions of what is and what is not communicated. Next, we'll consider how they can derive from a rational or an emotional place. Then, we'll review ways to consider explicitly what benefits consumers seek.

Let's revisit the question of how customer needs can be in conflict. The explanation is that there are differences in how consumers express need. Some needs are truly requirements, even demands, while others can be characterized as "nice to have." Some needs are never expressed, but are critically important to how the customer will arrive at a purchase decision and influence how the consumer perceives the product, brand and provider. To get a better understanding of these distinctions, marketers classify needs to describe their underlying meaning. They are:

- Stated or explicit: the specific "what" the customer asks for
- Real: what the stated needs actually means; what value the customer is going to derive from the stated good or service
- Unstated: what the customer expects implicit with the good or service
- Unexpected: needs that are not expected or required, but would delight the customer
- Secret: needs that the customer does not express, largely because they're intangible

Yes, this is relatively abstract. But, it's easier to understand these classifications if we add context with an example. Consider a shopper visiting the meat counter at the local supermarket. They tell the butcher they'd like to buy three 16oz ribeye steak. That's the *stated* or *explicit* need. The *real* need is that they're planning a small gathering at their home, and the steaks will be served to the guests. What's *unstated* is that they're hoping that serving steaks will impress the guests. When the butcher picks the three best steaks in the case and trims them, the shopper might experience delight, as the additional service satisfied an *unexpected* need—a need to be validated and treated with the same care they're putting into the menu and event. Further, if the butcher agrees that the shopper's planned preparation will work well with the meat, they have a *secret* need fulfilled—that they've planned a special event well and will likely impress their guests.

Clearly, there are multiple factors at-play, as consumers describe their needs. And, it's worth remembering that these consumer needs and related behaviors are influenced by each individual's unique motivations, assumptions, beliefs and biases, informed by experience and perspective. But, at their simplest, needs are either rational or emotional. Rational needs are consumer preferences or selections based upon objective measures or a conscious, logical reason, whereas emotional needs are based upon personal, subjective criteria.

Yet, consumer needs and behavior are continually adjusting, updating, and evolving, given ongoing interactions with media. That is, a consumer's unique motivations, assumptions, beliefs, and biases are supported or undermined by how they process messages, engage, and evaluate alternatives. As such, marketing activities marketing, the shopping/search context and actions/inactions in-market can have a tremendous impact upon how customers describe their needs.

A useful tool for understanding needs and putting them into context when they're expressed is Maslow's Hierarchy of Needs. Proposed in 1943 by Abraham Maslow as a theory in psychology, the hierarchy has been applied to marketing. It reflects the motivations that determine the needs humans seek to satisfy. Often shown in the shape of a pyramid, the most fundamental are in the base. Working from the base towards the top, they are:

- Physiological Needs
- Security
- Social Belonging
- Esteem
- Self-actualization
- Self-transcendence

Humans are first motivated to satisfy physical needs, such as air, food, water, sleep, and shelter. Maslow's theory suggests that the most basic level of needs must be met before the individual will strongly desire or be motivated to pursue secondary or higher level needs. Once these basic physiological conditions are satisfied, the individual can shift focus to security, which includes financial security, health, and well-being.

After physiological and security needs are fulfilled, the third level of human needs is interpersonal and involves feelings of belonging. Social belonging needs include friendships, intimacy, and family.

Esteem is the fourth need and it is related to ego needs or status needs, a concern with getting recognition, status, importance, and respect from others, including the need to have self-esteem and self-respect.

Self-actualization and self-transcendence are abstract, but equally meaningful for understanding customer motivations. Self-actualization refers to what a person's full potential is and the realization of that potential. Maslow describes this level as the desire to accomplish everything that one can, to become the most that one can be. Maslow developed the concept of self-transcendence later in his career, adding it as the peak of the hierarchy. He said, "Transcendence refers to the very highest and most inclusive or holistic levels of human consciousness, behaving and relating, as ends rather than means, to oneself, to significant others, to human beings in general, to other species, to nature, and to the cosmos." (Note: *Farther Reaches of Human Nature*, New York 1971, p. 269)

You might challenge this, pushing back on how a theory from psychology resonates in marketing. But, think about a given consumer's wants. What is driving that need? Think again of the shopper at the meat counter buying steaks. What was their motivation?

Is it physiological because they want food for their guests? Perhaps. Social belonging because they want to be accepted and validated by their guests. This could also be true. Esteem because they want to be recognized and respected by their guests as a good host. That's also possible. Could it be self-actualization, believing that caring for guests is what hosts do? Yes. In fact, it may be all of these. And, as such, you can plainly see how marketers apply Maslow's hierarchy of needs in a commercial context.

This completes the different ways that we can regard customer needs. Their needs can be spoken or unsaid, rational or emotional, and could be motivated by any of the categories in Maslow's hierarchy of needs.

INFORMATION USED IN BUYING DECISIONS

LEARNING OBJECTIVES

- Describe how a customer finds information to make a buying decision

As you saw in the previous module, there is no shortage of ways that consumers can collect information to support their purchase decisions. This fact is underscored in the description of the buying process, as each model (AIDA, path-to-purchase, and the consumer buying process) includes a stage where consumers gather information or develop interest or consider options. Information can come directly through formal channels, such as from producers or retailers, as well informally, produced by advocates, influencers, and other consumers.

Consumers can commonly find information within advertising, in-store, online, and by word of mouth. Recall the examples we described earlier in the course:

Let's imagine you're planning to buy a new phone. How would you decide on the right one? Would you research online? Would you go to the manufacturers' websites? What about blogs, where users give their feedback and product reviews, would you read them? Would you visit a store to see all the alternatives in-person, asking the associate questions about performance and how each phone compares to the others?

Perhaps you're frequently in-store to see the products in-person. Maybe you shop online, visiting the store or brand's websites? Are you connected with retailers or brands on Facebook? Do you follow them on Twitter to learn about new items, special releases or sales? Have you checked on Instagram to find them? Do you participate in fan boards or blogs to track updates or read reviews?

The reality is that we are constantly exposed to marketing messages. This is the other side of the omni-channel concept, meaning that marketers are communicating across a number of channels. Thus, as consumers, we're inundated with messages– so many, in fact, that it's impossible to recognize, categorize, and process them all. There is simply too much noise and clutter.

Think about your local supermarket and imagine walking down an aisle. Every single item on-shelf, through its packaging—the images and words, the colors and fonts—is trying to communicate to you. It's trying to convey that it can provide the solution to your need. Now, add displays, floor and shelf graphics, and special tags. The volume of messages competing for your attention is massive. If you're actively engaged, meaning you're actively shopping or looking for a specific solution, you might become overwhelmed with the sheer volume of "noise." If you're passively shopping, you may "tune out" these marketing messages entirely.

Think again about driving in your car down a busy street in your area. You hear advertisements on the radio, you read billboards, you see store signs and marquees, offering specific specials, you notice attention grabbing displays like balloons, flags, and banners.

Online, the volume is no less. You search for a specific term and get served links that best fit that need, but are also served ads by marketers wanting to attract you. On-site, you might notice different "Calls to Action," prompts urging you to complete specific actions or transactions. If you navigate to another site, you may find that you're followed, as banner ads and videos appear where you go next.

And, of course, there's the domain that's often outside the marketer's control- word of mouth. Certainly, some firms pay spokespeople and influencers to endorse their products and services. And, many consumer organizations have turned to social media, specifically Twitter, to manage customer service issues and resolution. But, there's also a large volume of information directly from consumers available to influence future decisions. For example, many sites provide opportunities for users to leave ratings & reviews. Such sites can be associated with the product & service or independent like Yelp. Independent blogs and forums also allow consumers to provide feedback. In this way, consumers are empowered to share their experience and shoppers are enabled to learn from the experiences of others.

As we saw in the buying process, consumers collect information along the customer journey. It comes directly from marketers through advertising, in-store merchandising and online interaction on websites and through social media. It comes indirectly through consumer feedback in ratings & reviews, on social media and through word of mouth. But, regardless of the source, this information can directly influence consumer attitudes, beliefs and actions.

MULTIATTRIBUTE MODEL

LEARNING OBJECTIVES

- Using the multiattribute model, explain how customers evaluate retailers

> "You can't be all things to all people."
>
> -Michael Porter

All firms, when making strategic decisions, must choose between alternative courses they could pursue. In doing so, they make appropriate trade-offs, which they believe will best position them for future success. Part of this requires understanding what they are and what they are not, what they can and cannot do.

This is true for how firms orient themselves, meaning the markets they enter, the products they make, the consumers they target, their marketing investments and more. The result for the consumer is that you might encounter some products or brands or firms that are consistent with your needs, but not all. Thus, shoppers regard them as a collection of characteristics or attributes that must be evaluated.

Yet, just as the firms have made decisions about who they are and what they do, consumers make similar decisions about what they value and what they need. Thus, not all the traits of the product or brand or firm are equally important to the consumer. Instead, some are more important than others because a shopper will evaluate the offering based on how well it performs on the characteristics most relevant to them.

Think about this example. You're invited to a friend's home. To show your appreciation for the invitation and to ensure that they think well of you as a guest, you want to bring a gift—a bottle of wine. Let's assume you don't typically shop for wine or know much about how to make a selection. What becomes most important for you in making a purchase?

- Is it the convenience of the store? Or, would it matter more that you shopped at a store specifically dedicated to selling wine and spirits?
- How important is the price? Would you be willing to pay a little bit more to be sure that your selection would impress your friends?
- What about the region where the grapes were grown or the year it was bottled? Would they rate higher than the recommendation of the salesperson or how high the wine was rated?

As you can see, there are multiple attributes on which to judge this shopping experience and the products that will be considered. Consciously or unconsciously, you're making decisions based on how it (the product or brand or firm) can meet your needs. But, based on your experience, you may already have strong attitudes and beliefs about how well the product or brand or retailer will deliver on its promise.

Attitudes are the summary assessment a consumer makes about a product or brand or firm. It's the result of their personal experiences, positive and negative, which endure. Psychologist Daniel Katz described attitudes as being functional in his *Functional Theory of Attitudes,* meaning that they can explain how consumers arrive at their decision. They can serve:

- Utilitarian Function: how well does this meet needs or solve a problem?
- Value-expressive Function: how well does this reflect my values or how I ant to reflect myself to others?
- Ego-defensive Function: would this negatively affect my image or standing?
- Knowledge-based Function: what criteria were used to arrive at this conclusion?

Thus, two consumers who both have positive attitudes about a particular toothpaste may have arrived at their decisions for different reasons. They may have different motivations. For example, one may believe that the toothpaste is the best at providing whiter teeth and fresh breath. They believe that it does far better than any other product or brand, thus they're motivated to select the product for its utilitarian function. While the second customer, who also has a favorable attitude about the product, may prefer it because they're concerned that not using it would expose them to stained teeth and bad breath. Thus, they are motivated to select the product to protect their ego (ego-defensive function).

Marketers measure and assess consumer attitudes, using the multi-attribute attitude model, to improve the positioning of products and brands and firms. To begin, the model has three components: attributes, beliefs, and weights.

Attributes are the characteristics of the product or brand or firm. Beliefs reflect how much a consumer believes that the product or brand or firm will deliver the attribute. For instance, if a toothpaste brand advertises that it freshens breath (attribute), a consumer may judge that to be true or untrue or even true on a relative scale compared to other toothpastes (belief). Simply, the manufacturer is making a claim and the consumer is reflecting how much they believe the claim is credible. Weights are the significance of the attribute. So, in the case of our example, consumers could strongly agree (belief) that a toothpaste freshens breath (attribute), but prioritize that lower than brightens teeth or protects teeth from gingivitis (weight). In this case, the multiple attributes (freshens breath, brightens teeth and protects gums from gingivitis) are weighted differently.

By weighting assessing beliefs and weights for each attribute, the multi-attribute attitude model can help marketers understand how to position the attributes of their product or brand or firm more effectively to differentiate for a given market segment.

Attribute as Differentiator = Beliefs (1 – 10 Scale) x Weight (1- 10 Scale)

That is, if consumers have lower belief in an attribute, compared to a competing brand, then the marketers could choose to downplay the significance of that attribute, emphasizing the attribute that is more credible for them. For example, Burger King cannot compete with McDonald’s operational excellence, which makes it highly effective in mass-producing standardized hamburgers. So, as alternative, Burger King promotes customization, wherein customers can select toppings to make the hamburger they prefer. This is an important differentiator for consumers who value customization.

Further, the results of the multi-attribute attitude model can also help marketers understand how well marketing messages are being understood or their relevance for a segment. That is, much marketing communication is intended to differentiation products or brands or firms from their competitive set. If the output of the multi-attribute attitude model implies that consumers don’t believe or value the differentiation, it may imply that a change needs to be made to the messaging or strategy, such as points of differentiation or target consumer segment.

The multi-attribute attitude model provides a framework for understand and assessing consumers’ attitudes about a product or brand or firm. Not only does it help reflect the multiple dimensions, against which consumers make inferences and judgments, but it also helps show how consumers value elements of differentiation. And, with this perspective, marketers can make changes to their communication and positioning strategies.

INTRODUCTION TO MODELS OF THE BUYING PROCESS

In the sections titled *Consumer Decision-Making Process* and *The Steps of the Buying Process*, we introduced processes or steps consumers engage in as they prepare to make a purchase. In particular, we described three models: AIDA, path-to-purchase, and the consumer buying process.

We also identified the specific steps:

1. Recognition of an Issue or Need
2. Information Gathering
3. Evaluation of Options or Alternatives
4. Selection
5. Purchase
6. After-Purchase Evaluation

In the coming sections, we'll go a bit deeper to describe three ways to evaluate consumers' buying decisions. That is, is their motivation explained by: largely quantitative economic models, largely qualitative psychological models or a blend of the two, consumer behavior models?

INCREASING SALES WITH EXTENDED PROBLEM SOLVING

LEARNING OBJECTIVES

- Describe how a retailer can increase sales from customers engaged in extended problem solving

Consumers with an extended problem solving mindset put a great deal of effort into their purchase decision, gathering information through research and taking care to evaluate all options, before arriving at a decision. Because of the time and energy committed to the search, this diligence is more likely dedicated to the selection and purchase of high-consideration or high-value items like cars, electronics and appliances. Or, it may be focused on something that is new or infrequently purchased. Thus, the consumer feels compelled to do more research to ensure their needs will be satisfied.

While it may be tempting to assume that these shoppers are mostly concerned with quantitative assessment of the alternatives, motivations can also be qualitative, building on external influences like cultural norms and family influences. Yet, it should be noted that these customers are deliberate in their process and are unlikely to be swayed directly by advertising, merchandising and promotion. As such, salespeople can be important in helping the consumer arrive at a decision.

For these shoppers, a salesperson will need to be able to engage the consumer to understand what their specific needs and concerns are, relative to the purchase. That is, what are they specifically hoping to get by buying the product– not the item itself, but what benefits it will provide? Further, the salesperson will need to be able to speak to how well specific features will meet the consumer's stated needs. And, they will need to be educated on the features & benefits of both the goods they're selling and those of competitive items, as they will likely need to compare and contract specific differences.

Because these consumers with an extended problem solving mindset are deliberate in their shopping process, salespeople should expect that they will not "close the sale," during their first interaction. Instead, they may need to nurture the relationship with the customer, helping them arrive at their purchase decision over time. Thus, effective salespeople will be those who engage in follow-up with the shopper, making themselves available to answer questions or provide perspective.

INCREASING SALES WITH LIMITED PROBLEM SOLVING

LEARNING OBJECTIVES

- Describe how a retailer can increase sales from customers engaged in limited problem solving

By contrast, consumers with a limited problem solving mindset put in little consideration before arriving at a decision. Because of the minimal time and energy committed to the search, this mindset is most common with the selection and purchase of low-consideration or low-value items. These may also be purchases that have little to no emotional significance. Simply, the consumer is unwilling to over-invest time or effort in a decision that has little importance or where a "bad" decision has no lingering negative effects.

These shoppers don't need a high level of engagement. Instead, they need to be cued to make a purchase. Thus, advertising, promotion and in-store merchandising can be especially helpful in influencing the decision. Think again about your local grocery store, imagining that you're walking down the dental care aisle. Each item on-shelf, through its packaging—the images and words, the colors and fonts—is trying to communicate to you a reason to buy. The displays, floor or shelf graphics and special tags are doing the same. And, given the low relative price-point of the items and the low risk of making a mistake in buying the "wrong" product," shoppers can make purchase decisions with a limited problem solving mindset.

HABITUAL DECISION-MAKING

LEARNING OBJECTIVES

- Describe how a retailer can satisfy the needs of habitual decision making customers by choosing to act in ways that increase loyalty

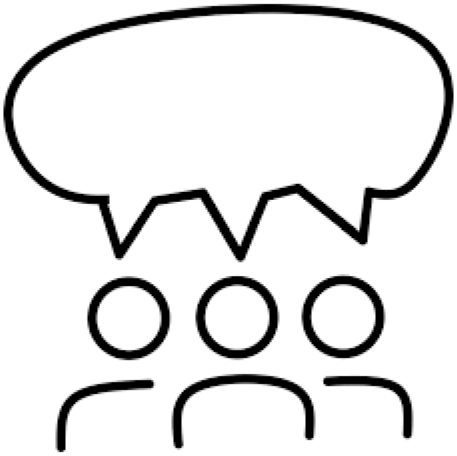
As you read, some consumers have an extended problem solving mindset, putting a great deal of effort into their purchase decisions. Others have a limited problem solving mindset, putting in little consideration because their purchase is trivial. Still, there is another way that consumers arrive at their purchase decisions and that is routinized response behavior or by habit.

These consumers don't think about their purchase–not because it's of low importance or trivial, but because they have already arrived at a conclusion about which product or brand will best meet their needs. They don't need to dedicate more thought or consideration because their needs are being met (or exceeded). From a marketers perspective, this is ideal because the investments in marketing activity has paid off in the acquisition and retention of this customer, reflected in their on-going loyalty.

Customer loyalty results when a consumer has consistent, positive experiences with a product or brand or firm over time. That is, it is on-going and reflects the breadth of value in all interactions, including in exchange, use, and experience.

Specifically, does the product or brand or firm provide value equal to or greater than what I pay for it (value in exchange)? Is the toothpaste worth the $3.49 I pay for it or more to me? Does it provide value to me in the form of the benefits I seek, when I use it (value in use)? Does the toothpaste freshen breath, whiten teeth and protect against gingivitis? And, does it provide value to me in how I experience it, which includes how I shop for and obtain it (value in experience)? Can I easily find this toothpaste where I shop in the quantities I want? Thus, customer loyalty is the result of a firm delivering customer value in all forms, meeting and exceeding consumer expectations over time.

INTRODUCTION TO UNDERSTANDING CUSTOMERS



Previously, you learned that no matter how similar consumers might appear to be, they are seldom the same. Their needs, motivations, assumptions, beliefs and biases are unique, informed by individual experiences and perspective. Understanding how to segment populations by identifying common traits helps marketers target specific audiences and position their products for them.

TARGET MARKETS

LEARNING OBJECTIVES

- Define a target market

Before we can even begin a discussion of target markets, we need to introduce the concept of segmentation. Segmentation is the process of identifying homogenous groups within a population—groups that share a common trait or characteristic. In identifying segments, marketers can decide which segment is most attractive to target, positioning their product or service for them to develop them as customers.

To segment a population, ultimately targeting a specific customer segment and positioning a product for them, we need to understand how populations can be broken into smaller groups or segments. To do this, we first need to identify the ways that members of the population can be uniquely different from one another. That is, what are the relevant variables in the population that would make segments unique. Typically, segmentation can be based on:

- Users
  - Demographics: who they are by age, gender, race, income or other classification
  - Geography: where they are
  - Psychography: what they think or believe—their attitudes, values and interests; how they reflect these in their lifestyle
  - Geodemographic: who and where they are and what that means for how they act
- Usage
  - Behavior: what do they actually do, not just what they say they do
  - Consumption: how much do they use products in the category

Commonly, marketers make the mistake of limiting segmentation to demographic variables. However, we should be cautious about this for two reasons. For one, even after segmenting populations on demographic variables, we can be left with very large populations that are not homogenous. Secondly, segmenting populations on demographic variables can lead to stereotyping.

Think about a population segmented only by gender. This would imply that all women are a homogenous group. That the attitudes, beliefs, needs and wants of a 15 year old girl are the same as those of a 35 year-old woman or a 75 year-old woman. We make no distinction about life stage, education levels, interests or other important variables that are likely present in the population. Further, segmentation by gender implies that no men could share the same attitudes, beliefs, needs or wants as the women. Certainly, there may be cases where this is true, but there is an equal likelihood that there are exceptions too.

Similarly, when a population is segmented demographically, stereotypes can be reinforced. Consider again the population segmented by gender. If women are a homogenous group, then we're saying they all have the same attitudes, beliefs, needs, and wants, which means we could say, "All women think…" or "All women believe…" or "All women are…" Obviously, this is not and cannot be true. People do not think, believe and act the same way because of their age, gender, race, or income. They are the sum total of their experiences and perspective.

Instead, it can be much more meaningful to segment populations by psychography or behavior, as these much more closely reflect attitudes, beliefs, needs, wants, and what the individual actually does in-action. Of course, researchers and marketers need to be aware that there is a distinction between what a consumer says is important and what they actually choose to do. For example, taking our toothpaste example further, an individual may indicate that they're very concerned with dental health, but they may not actually floss regularly. This distinction between belief and behavior is relevant when considering segments and possible target markets.

Another example could be segments of the population who believe in health & wellness and promote an active lifestyle. They might be an appropriate target for marketing reduced fat foods or active-wear clothing. But, if your business was selling fitness classes and nutritional recommendations, you might find that this segment says they "believe in health & wellness and promote an active lifestyle," but might be less committed to it in practice. Instead, a better target segment might be those individuals already behaving in a healthy way by monitoring their diets and engaging in physical exercise 3-4 times per week.

After segmenting the population, marketers determine the size and market potential of each segment. That is, understanding that we cannot be all things to all people, we need to identify which segment is most attractive, given both our organizational capabilities and the potential value of the segment now and into the future. With this information, we can select the segment as our target market.

A target market is the segment at which the firm will focus its marketing activity. This is done by positioning itself, its product or service, or its brand as uniquely suited to meet the consumer's needs. Targeting and positioning helps the firm more efficiently deploy its marketing resources, but has profound effect upon the decisions it makes with regard to the marketing mix (4P's- product, price, place, promotion).

Let's return to the example of toothpaste again. If Proctor & Gamble chose to target a segment most interested in dental health, they might develop a toothpaste that offers the most advanced technology to prevent the build-up of plaque and reduce the risk of gum disease and gingivitis. If having a toothpaste that offers "whiter teeth" and "fresh breath" is not valued by the target, P&G might eliminate those benefits or the messaging around them entirely.

Further, P&G might find that the target, so interested in dental health, is less price-sensitive than most other customer segments. This might mean that P&G can offer this advanced technology at higher prices—prices that the target market is willing to absorb for the enhanced benefits. Perhaps the technology is so advanced that it should only be recommended and sold by dental offices or available with a prescription, purchased through pharmacies. In this way, the channel of distribution changes. If the product is sold through dental offices or prescription based, P&G may reason that they don't need to promote or discount the item with consumers. Instead, thy may turn their promotion strategy toward the dental trade, working to get dentists to recommend and prescribe it more often.

As you can see, one decision about a target market and positioning a product for it has tremendous impact upon the marketing mix. Nevertheless, segmentation, targeting, and positioning are essential concepts to understand in marketing. It includes identifying homogenous groups within a population that are uniquely different from one another, determining the size and potential of the segments, and selecting a segment to target by positioning the product or brand or firm as uniquely positioned to satisfy those consumers' needs.

This is critical because consumers are unique, informed by individual experiences and perspective. Additionally, products and brands and firms cannot be all things to all people. They must target specific segments within the population whose needs they are best able to satisfy. Targeting specific segments also allows for firms to most effectively deploy their marketing resources to meet consumer needs.

MEETING THE NEEDS OF SPECIFIC GROUPS

LEARNING OBJECTIVES

- Explain why a retailer would want to meet the needs of a specific group of people

Segmentation, targeting, and positioning are critical activities because they help focus marketing and sales resources more efficiently. That is, rather than marketing a product or actively trying to sell it across a wide swath of the total population, segmentation and targeting identify a sub-population of potential customers who are the most attractive and most accessible for the firm. This is based upon both the long-term economic attractiveness of the segment and the firm's organizational capabilities. In this way, the firm can optimize its marketing mix to position its offerings to meet these consumers' needs. This both ensures that consumers' needs are satisfied and creates a virtuous cycle wherein the firm can continue to innovate, developing products that suit its core consumers despite changing needs and demands.

INTRODUCTION TO DESCRIBING CUSTOMERS

DEMOGRAPHIC MEASUREMENTS

LEARNING OBJECTIVES

- List a set of common demographic measurements

Common demographic data include age, gender, race, religion, income, education, and employment and marital status. However, as stated earlier, we should be cautious about using demographic segmentation to avoid being left with large non-homogenous populations and because segmenting populations on demographic variables can lead to stereotyping.

Previously, we considered a population segmented by gender. What if we changed our segmentation variable to income level. Would you be confident saying that individuals with incomes of $100,000 annually were largely homogenous? That their attitudes, beliefs, needs, and wants are all relatively the same?

How would you reconcile for life stage, comparing earners who may not yet have families with those that do? What about earners who have a working spouse vs. those with non-working spouses? How would you account for regional differences and the associated costs of living? Is the buying power of $100,000 the same in San Francisco and Tulsa? Very quickly we begin to see how other factors make segmentation on a demographic variable incomplete.

Similarly, when a population is segmented demographically, stereotypes can be reinforced. Consider again the population segmented by marital status. Are you willing to project attitudes, beliefs, needs, and wants on married couples, assuming they are all the same? What about singles? How would you account for people who are divorced? What about people in long-term committed relationships but are unmarried? You see, we cannot say, “All married people think…” or “All single people believe…” or “All married couples want…” because this obviously is not and cannot be true. People of the same age, gender, race, or income, do not all think, believe, and act the same way. They are different people influenced by all of their experiences with their own unique perspectives.

CONSUMER LIFESTYLE FACTORS

LEARNING OBJECTIVES

- Identify some key consumer lifestyle factors

Psychographic or lifestyle data include consumer attitudes, values, perceptions, beliefs, and interests. As noted earlier, psychographic segmentation is closely related to behavioral segmentation, though they do have important differences. For example, psychography is interested in understanding the consumer's motivations, whether stated or unstated. Simply, the focus is on "why". By comparison, behavioral segmentation is focused on tracking consumer actions and activity; it cannot infer motivation. The focus is on "what" they do.

MOTIVATION, ATTITUDE, AND BUYING CHOICES

LEARNING OBJECTIVES

- Outline how a buyer's motivations and attitudes can affect their buying choices

As you learned, when reading about the multi-attribute attitude model, attitudes are the enduring assessment a consumer makes about a product or brand or firm, based on their personal experiences, positive and negative. Typically, attitudes are described as being composed of three parts, reflected in the ABC model.

- Affect
- Behavior
- Cognition

Affect refers to how a consumer feels about a product or brand or firm, behavior refers to actions the consumer takes relative to the product or brand or firm, and cognition refers to the beliefs the consumer has about the product or brand or firm. In this way, attitudes are composed of feelings, thoughts, and actions.

These three parts work together to create a hierarchy of effects:

- Standard-learning hierarchy
- Low-involvement hierarchy
- Experiential hierarchy of effects

That is, the sequencing and relative importance of the three parts influence the consumer's motivation for their decision.

For example, the standard-learning hierarchy describes how an attitude is motivated by cognition with feelings developing from them. Sometimes referred to as the high-involvement hierarchy, it assumes that the consumer will do significant pre-purchase research, during the information gathering stage of the buying process. In turn, they develop beliefs about the available alternatives. Related to this, they'll develop feelings about the product or brand or firm that is the best "fit" for them. Then, they'll take action on those beliefs and feelings. Thus, the standard-learning hierarchy would be reflected as C to A to B. This approach implies that the consumer's attitude is motivated in cognitive beliefs followed by feelings related to them.

By comparison, the low-involvement hierarchy describes attitudes motivated by cognition with feelings ascribed after the purchase decision is made. In these purchase decisions, the shopper is guided by what they know,

either from previous experience or as influenced by advertising. Thus, the low-involvement hierarchy would be reflected as C to B to A, where a consumer uses their knowledge at-hand to make a decision, developing feelings about the product or brand or firm after the purchase and consumption.

The experiential hierarchy of effects describes attitudes that are motivated entirely by the consumer's feelings about a product or brand or firm. Reflected as A to B to C. Feelings lead the decision with cognition and beliefs following the purchase, either reinforcing the feelings or undermining them.

Appreciating the components of attitudes, affect, behavior, and cognition, and how they influence the consumer's motivation for their decision is important because it helps marketers and sales people understand how they can influence and change consumer attitudes:

- Changing affect
- Changing behavior
- Changing beliefs

Changing affect can be accomplished by pairing or associating a product or brand or firm with something that is perceived favorably by the consumer. When brands use spokespeople, influencers or brand ambassadors, they're trying to make a favorable association for their brand or product. Marketers may also do this by using endorsers on-pack or in advertising, for example "Made with real Fruit Juice" or "100% All Natural."

Changing behavior is generally accomplished through short-term promotion or price-discounting. This is the fastest and most direct way to influence behavior. However, because it erodes profitability and is easily copied by competitors, it is not sustainable long-term. As an alternative, firms can re-position a product or brand or firm to better address consumer needs. This does not necessarily imply that the product is actually changed. Instead, the firm may change the way it messages product benefits to better convey that it meets a consumer's needs.

Changing beliefs is the most difficult, as attitudes are built upon individual experiences and are enduring. Further, marketers tools for engaging consumers are limited, especially those who may have an unfavorable attitude toward your product or brand or firm. Without engagement, marketers are left with single direction communication, in other words, advertising. Nevertheless, they can seek to influence beliefs by changing the currently held ones (Admittedly, this is very, very difficult). Or, they could change the importance of that belief by adding other relevant attributes or changing expectations around what is ideal. For example, Alfa-Romeo has overcome some negative consumer attitudes about the quality of their cars by emphasizing that their relaunch in the United States included the Alfa-Romeo Giulia, a sports sedan with a Ferrari engine.

In all consumers' attitudes are the enduring assessment they make about a product or brand or firm, based on their personal experiences. They are composed of feelings, beliefs, and actions. Further, they are motivated by the relative importance of these feelings, beliefs and actions and their sequence. Understanding this, marketers can seek to influence consumer attitudes to affect their purchase decisions.

INTRODUCTION TO TARGET MARKET PLANNING

BRAND COMMUNITY

LEARNING OBJECTIVES

- Define a brand community

A brand community is a community formed on the basis of attachment to a product or brand, stressing the connection between brand, individual identity, and culture. In the advertising and marketing world, "brand community" has become a term used to encompass a brand's customers, fans, and advocates. Having a strong and loyal brand community can turn a small brand into a success if it is nurtured and appreciated properly. Ad agency Blade Creative Branding writes, "The people out in the marketplace who embrace the values of the brand, as customers and/or purchase influencers, are the brand's true "owners"." This philosophy has become especially popular with marketers creating and working on social media campaigns with easier interaction and more opportunities to tap into the brand community to leverage the brand.

DIFFERENTIATED, MASS, AND CONCENTRATED MARKETING STRATEGIES

LEARNING OBJECTIVES

- Explain why a retailer would select a differentiated marketing strategy over a mass or concentrated one

At its most basic level, a firm's strategy begins with decisions around how it will compete in the marketplace. Will it compete with products that are differentiated from the rest of the competition, leveraging technology to innovate in ways that provide additional value for consumers? Or, will it compete on price, optimizing its supply chain and operations to eliminate costs, so that it can offer the lowest landed cost possible for customers? Will it produce items with broad appeal, playing in the mass market? Or, will it target smaller, niche markets where sales are concentrated among a smaller number of consumers.

These strategic decisions–differentiated versus low cost and mass versus niche–have a tremendous impact upon how the firm will ultimately manage the marketing mix (4P's- product, place, price and promotion). Obviously, product will be directly influenced by decisions to differentiate, as this requires firms to dedicate resources to support product innovation through research & development. Similarly, niche items may require unique product development to suit consumer needs.

Place is also influenced by these strategic decisions. Differentiated products may be so innovative that they merit their own channels of distribution. Alternatively, niche items might be so unique that they struggle to secure distribution or hold onto it, given slow or lower turns, relative to other items on the shelf. This is an issue that won't be experienced by items with mass appeal.

Price is also affected by decision about differentiation. Certainly, if a firm selects to compete as a low cost provider, it's self-evident that they'll have less pricing flexibility than differentiated competitors. However, it is also worth noting that firms with differentiated products may be able to demand higher prices, especially if their innovation is especially valued by consumers. The same is true for products in the niche market. Consumers may be willing to absorb higher prices for getting products that are uniquely suited to their specific needs. Think about Kombucha Teas, which have probiotics and associated health benefits. Though niche, these demand higher premiums than typical tea products.

Promotion is the final factor affected by these basic strategic decisions. Of course, low cost items will not likely merit promotion, discounts having already been embedded in the low price. But, highly differentiated products may not be promoted significantly either. True, some firms might promote them to encourage initial placement or trial. But, if the item is uniquely different from other items in the competitive set, there is little reason to discount the product to capture share. The merits of the item should be sufficient. A similar logic applies to niche items. Again, because these suit unique consumer needs, they may not merit promotion or discounting.

PREDICTING A RETAIL STRATEGY MIX

LEARNING OBJECTIVES

- Predict a retail strategy mix based on the characteristics, needs, and attitudes of their customers

Marketing strategy involves not just stating an objective, but also includes identifying the method for achieving it. For instance, grow sales by 12% by introducing a new line or improve customer satisfaction to 65% by increasing “on-time/ in-full” order fulfillment for high velocity items or increase net profit by 1.0 points by revising promotional activity on tier-3 customers. The statements don’t describe every activity or tactic implicit with the strategy, but they do reveal the objective and the area of focus. As you saw in the previous section, a firm’s strategic decisions have profound influences on the marketing mix, as these are the tools marketers use to deliver against their objectives These elements are interdependent, meaning decisions in one area influence and affect opportunities in the others. Their understanding and application are fundamental to marketing. It’s worth noting, however, that retail strategy considers two additional P’s—people and presence. But, before we discuss people and presence, let’s review the 4P’s—product, place, price and promotion.

Product refers to the good or service itself. And, while this may seem relatively straightforward, think about the many ways products can be adjusted to fit or create a unique market opportunity. As you’ve already seen, firms with a differentiation or niche strategy dedicate resources to support product innovation through research & development, while other firms with a low cost strategy engineer their products to remove unnecessary features to eliminate costs. But, there are other, more subtle ways that products can be manipulated. Consider items in a traditional grocery store like granola bars. Even within a single brand like Nature Valley® Granola Bars, there are multiple types (Crunchy, Chewy, Sweet & Salty). These products were once innovations to extend the product line and attract new users. Similarly, variety packs are product changes. Think about the basic selling configuration–likely, they’re sold in 6- or 12-count cartons. Yet, these same items are in much larger pack sizes in warehouse clubs, where counts reach several dozen bars. This change in product configuration is done to meet a unique market opportunity—and alternative channel.

This brings us to considerations of place, which can refer to channels of distribution or outlets or even positioning on the shelf. Place has a profound impact on marketing activities. There’s the above example where a product’s package sizes change across channel, but we might also think about how the channel or outlet affects promotional activity. For example, weekly specials are commonplace in traditional grocery formats, but supercenters generally go to market with “everyday low prices” or promote through longer-term price reductions or “rollbacks.” But, channel can also have significant influence on pricing decisions.

Disagree? Would you ever be willing to pay more for an item if you know its established price? No? What about a Coke™? You’ll pay ~$3.99 for a 6-pack of 12oz cans at a supermarket. That’s $.665/ can or $.055/ oz. Yet, at a vending machine, you might pay $1.50 or $2.00 for a 20oz bottle. That’s $.075 to $.100/ oz.

Given the difference in value, why would you ever buy a Coke™ out of a vending machine, knowing it costs more than what you’d pay at a grocery store? What about a Coke™ at a movie theatre, concert or sporting event? Certainly, those prices are even higher than the grocery store and vending machine. But, the place changes the value equation. Consumers are willing to pay a premium for access or convenience.

Price and pricing decisions are important marketing tools. Price a product or service too high and there might be a corresponding drop-off in volume. Price it too low and there’s unrealized profits. You’ve just read how decisions on pricing can be influenced by place. But, they can also influence consumer perceptions around product, particularly around quality and value. This is true for luxury items, but can also be in effect in a supermarket. For instance, if a steak has a very low price, are you more inclined to think of it as a “deal” or that it might be lower quality or past its freshness date? Further, base prices influence consumer perceptions of value, when the items are ultimately promoted or discounted. In other words, is the discount meaningful relative to the usual list price of the item?

Promotion is the final "P" in the classic understanding of the marketing mix. Promotional activity can be leveraged to generate trial, reactivate lapsed users, shift share from competitive items, reward loyal buyers, clear remnant inventory, and a number of other objectives. But, promotion should not only imply discounting, like "Save x%" or "Now only $x.xx." Promotions can include special packs, bundling ("2 for $x.xx" or "Buy 3, Get 2,"), sweepstakes, contests, and other inducements. Promotions are important volume-enhancing activities, but marketers should be cautious because over-promotion can negatively impact consumer perceptions of the brand or product. Further, consumers may come to believe that the promoted price better reflects the true value of the product or service, choosing not to purchase the items at full retail price.

Though cliché, people are the face of an organization. And, in customer-centric businesses like retailing, a firm's staff is an important part of the marketing mix. Think about your experiences in high-service environments and how they differ from low-service environments. Yet, some retailers intentionally reduce staffing, despite the negative trade-off in customer experience. Low-cost formats like Dollar General does this. But, the trade-off in reduced staff and labor costs is that they're better able to offer lower prices. Conversely, retailers like Trader Joe's keep staffing levels high, believing that their people help maintain and enjoyable shopping environment.

Previously, presence referred to the accessibility and visibility of brick & mortar stores–where were the stores physically located, was there signage, etc. While that still matters, presence has evolved to include the retailer's decisions about participation across multiple channels. As we discussed in previous chapters, the customer journey for many shoppers passes through and between multiple marketing channels, putting them in contrast and conflict with one another. Retailers certainly understand this and the necessity to be present in multiple channels to ensure that they can provide value and satisfy customer needs, despite the risk of channel conflict. Presence is therefore part of the retail strategy mix as retailers consider how to manage multi and omni-channel challenges to meet consumer expectations around accessibility, consistency and service.

The 6P's of the retail strategy mix (product, place, price, promotion, people and presence) reflect the broad action areas where strategic decision are made. They are interdependent, where decisions in one area influence and affect opportunities in the others. But, they are fundamental tools for executing a retail strategy and delivering customer value.

PUTTING IT TOGETHER: IDENTIFYING AND UNDERSTANDING CUSTOMER BEHAVIOR

You started this module considering a customer faced with a multitude of options in the yogurt section, watching as they made their choice. And, you considered, what made them pick the selection they did? Was it brand, flavor, or price? Health credentials? Maybe advertising? Their previous experience or an impulse, a desire to try something new? Could it have been based on a recommendation or by accident? Were they motivated by all of these things? Or, none of them?

After working through this module, you should have developed an appreciation for the multiple factors that influence a customer's decision.

Certainly, it's important to recognize that customers can have conflicting needs. These needs can be spoken or unsaid and come from rational or emotional motives. They can be broken down into stated, real, unstated,

unexpected, and secret, as well as categorized based on which needs on Maslow's hierarchy of needs, which includes:

- Physiology
- Security
- Social Belonging
- Esteem
- Self-actualization
- Self-transcendence

Above all, however, consumers seek value reflected across all interactions, including in exchange, use, and experience.

For their part, marketers add another layer of complexity by attempting to influence consumers by improving the positioning of products and brands, so that how they satisfy needs is magnified and weaknesses are minimized. The multi-attribute attitude model helps with this pursuit by measuring and assessing consumer attitudes. The model has three components, attributes, beliefs, and weights. Attributes are the characteristics of the product or brand or firm, beliefs reflect how much a consumer believes that the product or brand or firm will deliver the attribute, and weights are the significance of the attribute.

Attribute as Differentiator = Beliefs (1 – 10 Scale) x Weight (1- 10 Scale)

By weighting beliefs and weights for each attribute, the multi-attribute attitude model can help marketers understand how to position the attributes of their product or brand or firm more effectively to differentiate for a given market segment. Typically, this is an outcome of segmentation, targeting and positioning.

Segmentation helps marketers understand the population, the size and market potential of each segment. Then, in selecting a segment to target, the firm identifies where it will focus its marketing activity. Finally, in positioning a product for the target, the firm makes decisions that inform the marketing mix (the 4 Ps). This is critical for several reasons. For one, consumers are unique, informed by individual experiences and perspective. Secondly, products and brands and firms cannot be all things to all people. Thus, they must target specific segments within the population whose needs they are best able to satisfy. And third, targeting specific segments allows for firms to most effectively deploy their marketing resources to meet consumer needs

Consumer needs, motivations, assumptions, beliefs and biases are unique, informed by individual experiences and perspective. Thus, it's critical that marketers work hard to understand the buying process and competing consumer needs, In doing so, they can be best prepared to provide value to their customer target.

MODULE 5: STRATEGIC RETAIL PLANNING AND MANAGEMENT

WHY IT MATTERS: STRATEGIC RETAIL PLANNING AND MANAGEMENT

> "You can't be all things to all people."
>
> -Michael Porter

This is an absolute truth and particularly appropriate in business, where finite budgets force prioritization and focus. Every firm, no matter how well resourced or capable, must determine its strategic direction. In making that decision, they look at themselves and those outside the firm. They assess the market and the factors that can and do influence it, such as consumer attitudes, technology, and regulation. They evaluate the needs of the consumer, their own capabilities, and the relative position of their competition. They consider the financial implications, balancing risk with the likely return. Ultimately, they make the decision they believe will best position them for sustained success.

The strategic decisions firms make impact the markets they enter, the products they make, the consumers they target, their marketing investments and more. Every element of the marketing mix, including the 4Ps–product, place, price, and promotion–and the additional 2Ps of retail, people and presence, are impacted by a firm's chosen strategy. You saw this for yourself when reading about the proliferation of retail channels and formats selling food.

These retailers shape their offerings to position themselves for a distinct target, differentiating themselves in-market by providing what their target values. For example, will they differentiate themselves by competing on product or service? What channels will they develop? Brick & mortar, e-commerce, or a multi-channel strategy? Will they compete by offering the lowest possible prices or will they try to provide added value to support higher prices? Will they promote? If so, will they pulse discounts through a weekly circular or offer everyday low prices? Will they allow display merchandising or sampling to support promotions? Even store locations and layout are influenced by the strategic decisions the firm makes about how best to meet the target market's needs.

Think about these specific retailers. Wal-Mart Supercenters, which occupy a large retail footprint, carry tens of thousands of products—hard and soft goods like fashion items, housewares, electronics, petcare and groceries among many other categories others. The breadth of their assortment is intended to provide contact efficiency: a "one stop" shopping experience. To drive traffic to their stores, they offer "everyday low prices" supplemented by periodic roll-back pricing in lieu of sales advertised through a weekly circular. Wal-Mart has made a conscious decision to be a low-price leader in the marketplace, offsetting their low prices by capturing a large percentage of the consumer's total shopping (Note: Consumer's shopping is sometimes referred to as the market basket.)

By comparison, discount formats like Dollar General have much smaller store footprints and offer a far smaller assortment. They too compete by providing low prices to consumers. Yet, instead of competing for a large share of the consumers' market basket, they support "fill-in" trips, which are consumers' smaller shopping trips that don't warrant the time, hassle, or inconvenience of shopping a larger format. Further, Dollar General provides value by maintaining lower operating costs. In particular, they have lower staffing levels, which mean that shoppers get low prices, but also lower service levels and “no frills” shopping. This is, of course, a reflection of their strategic decisions.

One final example for you to consider is Whole Foods. They’re interesting because they are markedly different than both Wal-Mart and Dollar General, as they try to compete on differentiation and service. Whole Foods has large stores and an emphasis on fresh products, especially in the all-natural and organic space. Further, they have high-service perimeter departments offering everything from coffee shops and salad bars to pizza slices and made to order meals. These service-intensive departments differentiate Whole Foods from other retailers in the grocery space. And to account for the differentiation supported by higher labor costs, Whole Foods has relatively high prices—certainly higher than Wal-Mart and Dollar General. Yet, these prices are sustainable because Whole Foods provides something of value to their target market, perhaps best described as freshness, convenience, and service.

As you can see, retailers aren’t just competing with one another through the items they offer and the pricing they set. Instead, they’re competing on a whole host of other criteria like convenience, value and customer service. And, this is born form the strategic decisions retailers make about how best to position themselves for their target market. Thus, understanding the explicit and implicit trade-offs resulting form strategic decisions is critical–indeed, you can t be all things to all people.

INTRODUCTION TO STRATEGIC PLANNING IN RETAIL

Strategic planning is the formal process firms (should) undergo to develop a plan for how best to compete, understanding the market and the factors that influence it, the needs of the consumer, the relative position of the competition, the firm's own capabilities, and the financial implications, given required trade-offs.

The outcome of this process, which includes objective setting, situational analysis, customer analysis, tactical planning, and implementation & control, is the development of a strategic (or marketing) plan. The strategic plan is a shared document that serves as the "road map" for how the firm will pursue its strategic objectives, ensuring that the organization is aligned on priorities and action items across all functions.

STEPS OF RETAIL STRATEGY PLANNING

LEARNING OBJECTIVES

- Outline the steps of retail strategy planning

Strategic planning is a formal process. Thus, it is marked by specific activities in which firms engage to build a marketing plan, ensuring that the entire organization is aligned on strategic priorities. The actions included in strategic planning are:

1. Objective Setting
2. Situational Analysis
3. Customer Analysis
4. Tactical Planning
5. Implementation and Control

Objective Setting

A firm might pursue any number of objectives for any number of reasons. For example, an objective around sales could be expressed by total revenue, total units, or YOY (year over year) growth.

Yet these objectives, though all focused on sales, are not all the same. There are clear difference between those measures and what they might mean for an organization. Further, the measure is only part of the consideration. The stated objective might be made with an eye ultimately on profitability or market share or operational efficiency. Objective setting is not just stating a goal, ambition or target. It isn't only about WHAT the firm plans to accomplish, such as "grow category sales by 4%" or "increase profit to $150k" or "reduce returns to <5%." It must also include the plan for HOW the firm can accomplish that goal, which implies WHY the objective is strategically important.

In this way, the objectives listed above might be revised to read:

- "Grow category sales by 4% by increasing merchandising and promotional activity."
- "Increase profit to $150k by introducing new flavors and regional brands."
- "Reduce spoilage to <5% by increasing stock rotation in produce."

As you can see, the specific measurable goal didn't change. But, each objective now includes language around how it will be achieved. And, in doing so, they imply the organizational priorities, the "why." By adding this detail, the firm helps the broader organization focus on the activities that support the strategy.

For example, while we could raise prices or reduce product costs or eliminate marketing expenses to increase profit by $150k, the inclusion of "by introducing new flavors and regional brands" informs the organization how the objective is to be met. And, in doing so, we understand that there is value in changing our assortment to provide more variety and popular local items for shoppers. Thus, there's little room for confusion about what's important. In this case, it is likely the shopper experience, reflected in variety and local products. Thus, the firm helps the broader organization focus on the activities that support the strategic opportunity and gives it meaning.

Situational Analysis

Situational analysis helps decision-makers in the firm understand what to do and how to do it. At its most basic level, it's a multi-dimensional consideration of the context (the environment in which we'll compete), organizational capabilities, customer, and competition. These factors describe the business environment, how our own abilities can deliver value relative to consumer needs, and the likely actions/reactions of our competitive set.

Customer Analysis

Customer analysis is a critical activity that ultimately helps focus marketing and sales resources more efficiently. It includes research into and analysis of consumer behavior, the results of which inform segmentation, targeting, and positioning. Thus, rather than marketing a product or actively trying to sell it across a wide swath of the total population, customer analysis helps break the population into smaller homogenous segments. From these, marketers select the sub-population of potential customers who are the most attractive and most accessible for targeting.

This is based upon both the long-term economic attractiveness of the segment and the firm's organizational capabilities. In this way, the firm can optimize its marketing mix to position its offerings to meet these consumers' needs. This both ensures that consumers' needs are satisfied and creates a virtuous cycle wherein the firm can continue to innovate, developing products that suit its core consumers, despite changing needs and demands.

Tactical Planning

Tactical plans are the short-term actions the firm takes to affect the controllable elements of the strategy. For example, if a firm has the objective to "grow category sales by 4% by increasing merchandising and promotional activity," a relevant tactic might be to plan robust promotional activity in key seasons. For example, this might mean that merchants engage their vendors in the soft drink and salty snacks categories to support promotions and allocate in-store space for merchandisers or store associates to build displays in advance of the New Year's holiday or the Super Bowl. It could also mean that the corporate marketing team develops in-store circulars or television commercials to promote sale items around Thanksgiving, asking store managers to bring in shippers and high backstock levels to ensure sufficient inventory is kept on-hand. Each of these examples illustrate how a short-term tactical execution supports the broader objective of growing category sales by 4% by increasing merchandising and promotional activity.

Implementation and Control

Implementation and control refers to how the firm puts its strategic plan into place, including how it organizes cross-functionally and communicates priorities. Further, it also includes how the firm tracks progress toward its objectives, measuring performance so that adjustments can be made, if necessary. Certainly, a firm is responsible for managing its controllable variables. But, robust monitoring and control systems help firms react and adjust to uncontrollable variable like changes to the business environment or specific competitive activity.

Strategic planning is a formal process firms (should) undergo to develop a plan for how best to compete, given the business environment, the firm's own capabilities relative to the needs of the customer and the anticipated actions/reactions of competitors. The outcome of this process is a marketing plan, the "road map" for how the firm will pursue its strategic objectives. It is a shared document to ensure that the entire organization is aligned on priorities and action items, regardless of function.

VISIONS AND MISSIONS

LEARNING OBJECTIVES

- Describe the value of an organizational vision and mission

One of the biggest issues for any organization is keeping its members aligned, focused on the most important priorities—those that will deliver strategic objectives. This requires consistent communication, effective management and efficient resourcing. Further, some firms support this by publishing mission and vision statements to provide direction for the organization and to convey its values. While the values may be aspirational, the direction should communicate the strategic scope of the firm.

But going further, we should make a distinction between mission and vision statements. They are not the same. Mission statements describe what a firm does and/or wants to do now, while a vision statements is intentionally aspirational and describes what the firm hopes to do and be in the future. A mission statement describes the critical processes and performance that satisfies a specific customer. A vision statement is future oriented, meant to inspire. It often describes a future where the firm redefines the industry and benefits society overall.

For example, PepsiCo publishes this mission statement:

> As one of the largest food and beverage companies in the world, our mission is to provide consumers around the world with delicious, affordable, convenient and complementary foods and beverages from wholesome breakfasts to healthy and fun daytime snacks and beverages to evening treats.
>
> We are committed to investing in our people, our company and the communities where we operate to help position the company for long-term, sustainable growth.

By contrast, their vision statement is:

> At PepsiCo, we aim to deliver top-tier financial performance over the long term by integrating sustainability into our business strategy, leaving a positive imprint on society and the environment. We call this Performance with Purpose.
>
> It starts with what we make—a wide range of foods and beverages from the indulgent to the more nutritious; extends to how we make our products—conserving precious natural resources and fostering environmental responsibility in and beyond our operations; and considers those who make them—striving to support communities where we work and the careers of generations of talented PepsiCo employees.

Thus, the key distinctions between the two documents are time, orientation, and function. A mission statement is current and/or future-looking, whereas a vision statement is always future-looking. Mission statements deal with what we do and vision statements deal with what we aspire to be. Lastly, while mission statements function for internal communication and alignment, vision statements function as inspiration.

Despite their differences, both mission and value statements communicate the strategic scope of the firm.

DECISIONS AND STRATEGY

LEARNING OBJECTIVES

- Explain how a retail strategy guides the decisions of an organization

As you read earlier, strategic planning is a formal process that evaluates the market and the factors that influence it, the needs of the consumer, the relative position of the competition, the firm's own capabilities, the financial implications, given required trade-offs. The output of this process is a strategic plan, a shared document that serves as the "road map" for how the firm will pursue its strategic objectives.

And, because strategic planning is both internally and externally oriented, it crystallizes the opportunities present for a firm and how best to capitalize upon them.

In particular, situational and customer analysis captures those factors that will support and those that will challenge organizational success. In this way, the resulting strategic plan will influence and guide the decision-making of the firm. Specifically, strategic planning helps retailers make decisions around growth opportunities, consumer targeting, and performance. Growth marketing is when firms capitalize upon new initiatives and their sources, whether that is new items, categories, locations, or markets. Consumer targeting is when they differentiate themselves in-market–allocating resources to optimize locations, layouts, assortment, and overall positioning to attract specific targets. This also includes decisions round whether to open new, remodel existing or to close underperforming locations. Performance is when they assess overall returns through the marketing mix and retail operations like inventory, cost, and capital management.

Any of these could require evolution of the current business model, adoption of new value propositions or operational tactics. Thus, these strategic considerations create decision-points for a retailer.

INTRODUCTION TO CREATING A STRATEGIC PLAN

Strategic planning helps retailers make decisions around growth opportunities, consumer targeting, and performance. Of course, these aren't narrow topics. Instead, they require the application of broad analysis and understanding of the competitive environment, the firm's capabilities and limitations, product/service fit, and likely competitive responses. Strategic planning requires that a firm engage in rigorous research and analysis to capture effectively the variables that influence performance, then consider how it can mitigate threats while leveraging strengths.

SITUATION ANALYSIS

LEARNING OBJECTIVES

- Describe how a situation analysis illuminates the opportunities and threats in a business environment

Situational analysis helps decision-makers in the firm understand what to do and when to do it. At its most basic level, it's a consideration of the context, organizational capabilities, customer needs, and competition. These factors describe the business environment, how our own abilities can deliver value relative to consumer needs and the likely actions/reactions of our competitive set.

Specifically, context refers to the over-arching business environment, as influenced and affected by macro-level trends like technology, government regulation, social movements and economic forces. For example, you've read that consumers are using convenient digital interfaces and low-cost fulfillment to order product on-line and in-app for at-home delivery. This change in consumer behavior has an effect upon the retail grocery industry as well. Thus, forward-looking retail strategy should include a consideration of technology and consumer trends are shaping the shopping experience from search through fulfillment to service.

Government regulation and social movements may also converge to create powerful forces that shape the business environment. Consider, for example, that social activism around environmentalism and sustainability has led to laws prohibiting the use of plastic bags at check-out in California. Or, how concerns about high-calorie drinks have led to restrictions in some places, either by law or by activism. At the University of California San Francisco, for example, retailers on-campus have been required to remove sugar-sweetened beverages, replacing them with zero-calorie beverages and non-sweetened drinks with nutritional value. This initiative started at UCSF's medical center on its Mission Bay campus site, but had support to roll out across all campuses. These are clear examples of how government regulation and social movements can have significant impact upon the competitive environment. Thus, effective situational analysis should identify and quantify, if possible, these threats.

Organizational capabilities considers the relative strengths and weaknesses of the organization. This should be a practical and pragmatic assessment of what the firm does and does not do well. It should reflect how it makes investments and allocates resources, mindful of its priorities and stakeholders. Dollar General, for example, wouldn't describe capabilities for attracting consumers interested in a high-touch shopping experience—that's not what they do well. By the same token, Whole Foods wouldn't claim capabilities around low-cost retailing.

Customer analysis includes consideration of the needs of current and future consumer, as well as their characteristics. But, because robust strategic planning includes a step dedicated to customer analysis, the assessment of the customer within the situational analysis does not require the same rigor. Instead, it is reasonable to describe which consumer segments are the best fit for the firm's products/services, using broad segmentation criteria. However, during the customer analysis, it's important to consider which specific targets will be targeted and how the firm will position themselves for them.

For examples, within the situational awareness, a retailer like Kroger might describes its core customer as a weekly grocery shopper with a product mix of fresh and packaged products and an average bill of $xx.xx per week. However, in the customer analysis, Kroger might refine this further to describe specifically consumer needs around convenience or value or wellness, described by the segments' specific behavior.

And, competition includes assessment of the strengths and weaknesses of the competitive set. But, just as the assessment of organizational capabilities requires practical and pragmatic assessment of what the firm does and does not do well, that same objectivity needs to be applied to the competitive assessment. Because we've acknowledged that we cannot be all things to all shoppers, it is natural and appropriate that competitors will have strengths in some areas where we do not. That's okay because the flip-side is also true—we'll have strengths where the competition does not.

By thinking in this multi-dimensional way, decision-makers can assess the factors that have direct influence on their strategic opportunities and threats. Thus, they'll be better equipped to identify where to make investments to capitalize on opportunities.

SHORT AND LONG-RUN OBJECTIVES

LEARNING OBJECTIVES

- Differentiate between short and long-run objectives that a retailer will set for itself

Earlier, you read that a firm might pursue any number of objectives for any number of reasons. Of course, we cautioned that objective setting is not just stating a goal, ambition or target. It isn't only about WHAT the firm plans to accomplish, but also HOW the firm can accomplish that goal, thus implying WHY the objective is strategically important.

It is important to note that not all objectives have the same time horizons. More explicitly, firms might expect to achieve some objectives relatively quickly, while others are expected to require more time. Understanding the time horizons for specific objectives is important because a critical element of implementation and control, which is step #5 in the steps of retail strategy planning, is evaluating performance. Particularly important is identifying leading indicators: meaningful factors whose change indicates or predicts future change. That's an overly complicated way of saying that leading indicators are predictive measurements, which would give a firm confidence that their strategy is on-track.

For example, if a local grocer had a strategic objective to grow revenue by x% by attracting new and re-engaging lapsed shoppers, they might consider a number of intermediate objectives, the attainment of which would be positive leading indicators of the success of the broader strategy. For example, knowing average trip frequency and amount spent per trip, the retailer might set an objective of issuing 5,000 new shopper cards within 6 months. Or, they might set an objective of stimulating re-activation of 10,000 shoppers who had been dormant for >6 months.

Of course, there would be a host of tactics to support these objectives, which would need to be articulated and implemented. But, by tracking new shopper card applications and/or tracking the re-activation of dormant accounts, the data may show the retailer that they're on-track to grow revenue by x% by attracting new and re-engaging lapsed shoppers. Thus, these intermediate objectives are "performance markers," or indicators that the organization is meeting its performance goals as it tracks toward long(er)-term strategic goals.

TARGET MARKET TECHNIQUES

LEARNING OBJECTIVES

- Discuss the strategic implications of various target market techniques

Effective customer analysis includes work around how the firm will position itself as uniquely differentiated from others within the competitive set, so that it is best suited to meet the needs of its target customers. To do this, the firm needs to understand what consumers think of it relative to their needs and to alternatives.

Differences can be physical or perceptual. Physical differences can be found in layout, assortment, service levels, pricing, etc. These physical attributes are objective and readily described. Perceptual differences are harder to quantify and are highly subjective. Perceptual differences focus on what the use of the product or service “says about” or “means” to the consumer.

For example, Wal-Mart’s “Always Low Prices” and “Save Money. Live Better” slogans speak to physical differences in the prices found in their stores, compared to other outlets. Whole Foods, for their part, describes themselves with the slogan “America’s Healthiest Grocery Store.” Certainly, Whole Foods isn’t the only retailer with an assortment of healthy products. And, it doesn’t have exclusivity on serving shoppers with a health & wellness mindset. However, in identifying themselves this way, they make a distinction about themselves, relative to other retailers, and convey to shoppers that they get health & wellness by shopping at Whole Foods.

It should be noted, however, that a slogan does NOT create differentiation. Simply saying one is uniquely different from the competition doesn’t make it so. Instead, we reference Wal-Mart and Whole Foods in these examples because they reflect how each of these retailers references differentiation—physically and perceptually, respectively. However, the slogan alone doesn’t make this differentiation true. Instead, it’s the sum total of rigorous work reflected in strategic planning, marketing management, and operational excellence.

Effective positioning follows a defined process, the first step of which is identifying the relevant competitive set. In this case, that is the other retailers in the grocery space with whom the firm will likely compete. More important is the second step, which requires that we select the specific criteria by which the stores are judged. These are the determinants of demand—the reasons consumers might choose to shop these specific formats over others or not.

The identification of the determinants of demand is important because it shows the variables that influence consumer choice and experience. However, they are ideally paired with consumer feedback on the relative importance of each. This data can be qualitative (based in opinion) or quantitative (reflected in measured analysis of behavioral data).

The next step is for the firm to analyze their position relative to the competition on these factors using either a positioning grid (sometimes called a perceptual map) or a value curve. The positioning grid shows the two most important variables, one on the x-axis and one on the y-axis. Then, each competitor is positioned on the graph to show how they perform on each dimension.

The positioning grid can help marketers identify white space: areas for competitive entry that are not currently occupied by others. In this case, the analysis shows that there might be an opportunity for a retailer with high assortment and relatively low value. However, it’s important to caution that this may be an unoccupied competitive space because it’s not viable. That is, the competition may not compete here because there isn’t enough consumer demand to support and sustain a grocery retailer with wide assortment and relatively high prices.

It’s for this reason that value curves can be especially helpful. While positioning grids only show how a competitor performs relative to the two most important determinant variables, value curves reflect performance on each factor.

It should be noted, however, that we’ve used “general” variables in this example. However, each factor can be broken into more specific descriptions, given what matters to shoppers. For example, quality might be further articulated as: fresh produce, meat & fish, well-stocked shelves, the professional appearance of staff and the overall cleanliness of stores.

With the results of the positioning grid and value curves in-mind, the retailer should consider what positioning best fits them, given their internal capabilities, priorities, resources, and investments. As you read previously, Dollar General’s business model would make attracting consumers looking for a high-touch shopping experience a poor fit. And, by the same token, low-cost retailing would be a poor fit for Whole Foods.

The positioning process helps the firm describe how it’s uniquely different from others within the competitive set. The positioning grid and value curves show how they perform on the factors that are most critical to consumers, also known as the determinants of demand. By using these tools effectively, the firm can identify and leverage those areas where they have a distinct advantage.

KEY VARIABLES IN PLANNING

LEARNING OBJECTIVES

- List some key controllable and uncontrollable variables that should be considered when creating an overall retail strategy

Firms use strategic planning to develop comprehensive plans for how best to compete by taking a holistic view of the market and the factors that influence it. Decision-makers try to understand all the variables that shape the firm's internal capabilities and resources relative to external opportunities and threats. In doing so, they work to find areas where they can differentiate, anticipate competitive response, and build sustainable competitive advantage.

Yet, not all variables are controllable. Factors like overall economic trends, government regulation, volatility of supply, demographic shifts, changes in cultural values, and technology can have profound impact upon strategic plans. Think again about the massive macro-factors influencing retail that we've already discussed—technology, wellness, labor. They all exist outside the control of the firm.

Previously, we've examined how consumers are using convenient digital interfaces and low-cost fulfillment to order products on-line and in-app for at-home delivery. This change in consumer behavior, empowered by advancements in technology, has an effect upon the retail industry, as well. Of course, forward-looking retail strategy should include a consideration of how this is shaping the shopping experience from search through fulfillment to service. But, what was the likelihood that strategists were incorporating these factors into their retail strategy 10 years ago? (Keep in mind that the first Apple iPhone® was introduced in 2007.)

What should this imply for strategic planning now, when artificial intelligence and machine learning are gaining wider-spread acceptance? Nothing? What does the future look like, if consumers can order items or subscribe for automatic fulfillment with in-home assistants like Amazon Alexa and Google Home? What if these machines "learn" consumption patterns and preferences, able to place orders without the consumer initiating them? In what profound and uncontrollable ways will shopping change?

You also read how massive demographic changes have elevated interest in health & wellness, especially around fresh, all-natural ,and organic foods. Consider what this has meant for product marketing and in-store assortment. What are the implications for retailers as these trends become even more mainstream? And, what are the implications for the supply chain, as the vast majority of agricultural output in the United States is not geared toward organic farming? This likely constraint of supply will influence prices. What will this mean for retailer and consumers? How can firms account for this opportunity and related risk in their strategic plans?

And, of course, we discussed labor. Cultural values have coalesced around resolving economic disparity, pressuring local, state, and federal governments to increase minimum wage. They've done so through regulation. And, while this has great benefit for associates, it puts incredible pressure on retailers. As you know, retailers operate with very low margins. So, what does this mean for strategic plans? How can retailers manage operations and service while also managing labor costs profitably? What could be the next area of activism or regulation?

As strategists and decision-makers within a firm try to focus internal capabilities & resources for a specific strategy, they must recognize that external variables can undermine their efforts. These uncontrollable variables, including economic trends, government regulation, volatility of supply, demographic shifts, changes in cultural values, and technology, can have profound impact upon strategic plans. Today's opportunity can vanish very quickly.

TACTICAL DECISIONS

LEARNING OBJECTIVES

- Summarize a few tactical decisions that can be made to enact the strategy

Earlier, we introduced the concept of tactical planning. Tactical plans are the short-term actions the firm takes to affect the controllable elements of the strategy. Thus, tactical decisions relate to how a strategy is implemented and ultimately achieved.

Tactics are the initiatives and activities that, when combined and successful, deliver the strategic objective. Within a firm, decision-makers and managers outline the specific initiatives that will be undertaken and delegate roles and responsibilities across the organization to support them.

Like many things, it is likely easiest to consider strategy and tactics with an example. Let's imagine that HEB, a retailer in Texas, has made increasing their sales revenue by 5.6% by updating their assortment with more fresh and all-natural products their strategic objective. On the face of it, the leaders of the organization have given us a clear indication of WHAT they want to do: increase sales revenue by 5.6%. And, they have indicated HOW they want to do it: updating their assortment with more fresh and all-natural products. What's unstated but implied in this strategic objective is that fresh and all-natural products are generally on-trend with consumers and have higher price-points than alternatives.

But, think about HEB's strategic ambition in-practice. What has to happen within the organization to make the change to assortment possible, so that they can realize a 5.6% increase in sales revenue? What functions need to be involved? What specific initiatives need to be undertaken?

To begin, HEB's merchandising team would likely initiate a project internally to identify the departments they'd like to update. This might require that they engage their own marketing department or an outside agency to evaluate what changes are the most relevant to shoppers and what the expected impact will be.

At the same time, they'll need to coordinate with store operations to determine whether revisions need to be made to store layout and design. That is, will more space need to be dedicated to specific departments, causing others to shrink? Will this require remodeling with potentially high costs? What about the labor to do the resets?

The team will almost certainly need to engage finance to ensure that funding exists to support the changes. Finance might have concerns about the scope of the project, requesting that the merchandising team prioritize some stores over others.

This might lead to another analysis by the marketing department to assess which stores cater to shoppers who are most interested in fresh and all-natural products.

As you can see, a strategy to "increase sales revenue by 5.6% by updating assortment with more fresh and all-natural products" has far reaching implications across the organization. And, we haven't gotten to the point where specific stores and their staff are doing the work…. Or talked about what work merchants or buyers will need to do with suppliers to source the required products… Or discussed what the marketing team will do to advertise and promote the changes… Or described what this means for the designers of the website and store circular. We haven't even had our first customer through the front door to see the changes or talked about how we'll keep them excited to return to shop the store again.

Clearly, there are many smaller projects required to implement the strategic plan–a myriad of smaller initiatives that ultimately support the roll-out and execution of the strategic initiative. It's these smaller, tactical decisions that ultimately deliver the strategic goal or prevent its accomplishment.

RETAIL AUDITS

LEARNING OBJECTIVES

- Define a retail audit

Audits are reviews to assess how well store operations meet organizational standards, provide satisfactory shopping experiences, and implement and support priority initiatives.

There are three types of audits you might encounter in retail:

1. Health and Safety Audits
2. Loss Prevention Audits
3. Merchandising Audits

And while each is relevant in a retail environment, we'll focus our discussion on merchandising audits because they're focused on assessment of the broad operations of the store that influence execution and drive financial performance.

Health and safety audits are primarily interested in assessing how well the store is meeting regulatory and legal guidelines, especially as it relates to food handling and/or the employee work environment. Loss prevention audits are focused on assessing how well the store's process, protocol, and training minimize theft, fraud, and shrinkage. Again, these are important activities, but merchandising audits will provide a better assessment of the overall store operations that affect financial performance.

Merchandising audits evaluate assortment, display, pricing, and promotional activity are consistent with the firm's guidelines, implemented in a way that supports priority initiatives. These audits can be done in-house by store staff or can be out-sourced to independent firms. It should be noted also that some CPG (Consumer Packaged Goods) companies do audits of their own. Their goals for doing so are the same–to ensure that the retailer's execution is consistent with their standards and support priority initiatives.

Merchandising audits should be done "through the eyes of the consumer," but with the knowledge of the store operator. That is, think about what the consumer sees and experiences versus what the retailer is trying to get them to see and experience. A great starting point is often a walk of the store's perimeter. What does the consumer see upon entering the store? What products are displayed or promoted? How are products in the different departments merchandised? What does the signage communicate?

If the focus is on a given product category or section, it will be necessary to visit the specific aisle to review the products on-shelf. First and foremost, are the products shelved according to the approved plan-o-gram or schematic? That is, each store has a "map" of how the shelf should look, including the number of facings for each item and the units to place on-shelf. This ensures that the shelf space is optimized for shoppability and to support in-stock levels.

The next priority is to ensure pricing compliance. Are all the items labeled with the correct item description and price tag? This not only helps consumers make a decision when comparing across products, but also helps associates identify and re-order out of stock products and place them correctly on-shelf. For promoted items, you'll want to ensure that sale tags are in-place. Again, this is an important tool to help the consumer make decisions. But, another benefit is that it influences consumer perceptions about pricing and promotional activity in-store. That is, the more prevalent the signals of sales and special offers are, the greater likelihood that consumers give the retailer "credit" for having promotional activity.

Merchandising audits can be incredibly helpful tools in providing feedback to decision-makers. In assessing how well stores meet organizational standards, provide for the shopping experience, and support priority initiatives, audits can describe where there might be organizational disconnects between the strategy and tactical execution. This helps firms resolve the performance gaps and realign all constituents on what matters most to deliver the strategic objective.

INTRODUCTION TO STRATEGIC PLANNING OPPORTUNITIES

Strategic planning helps firms identify how best to compete in-market, given the business environment, the firm's own capabilities relative to the needs of the customer, and the anticipated actions/reactions of competitors. The

resulting marketing plan guides how the firm should pursue its strategic objectives, reflecting areas where the firm can pursue avenues for growth and sustained competitive advantage.

THE FEEDBACK PROCESS

LEARNING OBJECTIVES

- Describe how consistent feedback can make the process iterative and roundabout rather than sequential

Previously, you read about implementation and control as the 5th step of retail strategy planning, dealing with how a firm organizes cross-functionally and communicates priorities. But, it also includes how the firm tracks progress toward its objectives, measuring performance so that adjustments can be made, if necessary. Effective monitoring helps firms react and adjust to uncontrollable variables, which can impair progress toward a strategic objective. It's this control through monitoring, measuring, and adjusting that helps a firm remain agile and able to react to changes in the competitive environment.

Feedback, of course, is fundamental to effective control and it can come in many forms. It could be quantitative like change in store traffic, sales revenue, customer satisfaction scores, or operating profit. Quantitative data is data about quantities, meaning it can be measured. The feedback could also be qualitative like positive comments left on the firm's Facebook page. Qualitative data cannot be expressed as a number. It isn't less relevant than quantitative data, but it is harder for decision-makers to assign relative significance to it.

Regardless of the type of feedback data, quantitative or qualitative, it's important to understand the difference between leading and lagging indicators of success. You've read a bit about leading indicators, so it might make sense for us first to describe trailing indicators and their limits. Two of the measures we described above, sales revenue and operating profit, are lagging indicators. They're the product of the actions that have been put in-place. But, we cannot influence them further, we can only monitor and measure them. They reflect history.

Let's return to our example of HEB and their goal to increase sales revenue by 5.6% by updating their assortment with more fresh & all-natural products. If we measure YOY change to sales revenue, we get a data point. But, we can't make any changes to that fact or really understand what is likely to happen next. Consider this fictitious data for HEB YOY sales revenue:

- +4.5% vs. LY (last year) for January, but missed expectations.
- +0.3% vs. LY for February, but missed expectations
- -1.1% vs. LY for March; missed expectations
- +6.2% vs. LY for April; exceeded expectations

As a manager, the results might make you nervous or impatient and ready to make changes. But, the data is backwards looking; it reports what happened, but doesn't give any tools or perspective on what to do next to influence performance in May and beyond.

Again, particularly important is identifying and tracking leading indicators: meaningful factors whose change indicates or predicts future change. These predictive measures give a firm confidence that their strategy is on-track. Let's think through the HEB example and identify some potential leading indicators they could use. Perhaps cutomer satisfaction, purchase intent (how likely they are to buy), and/or basket composition.

If the fresh and all-natural products are generally on-trend with consumers, it would make sense for HEB to measure customer satisfaction levels about their offerings, assortment and pricing BEFORE the strategic initiatives are put in place and throughout the implementation and control period. While high(er) levels of customer satisfaction wouldn't guarantee that HEB meets its financial goals, performance on this metric might imply how well the changes are meeting customer needs. If there's no change in the metric, it could be that HEB hasn't made the right assortment choices or that they are not "getting credit" for the changes and need to promote them more.

Purchase intent is a good complement to customer satisfaction because it builds on satisfaction and takes it a step further—are you planning to buy? By tracking this metric, decision-makers at HEB can see how their changes could impact shopping behavior. Of course, what consumers say and what consumers do can be two dramatically different things. But, if purchase intent is not favorable, it may indicate that the changes have not resonated with the shopper or that there are other barriers to trial like price-point. However, if satisfaction increases and purchase intent increases, we should feel confident that HEB has made the right decisions in updating their assortment the way they have.

Another metric to consider is basket composition, which measures what's in a shopper's basket and what percentage of the total spend it represents. For example, consider these purchases:

- Bananas- $2.00
- Chicken Breasts- $8.00
- Cereal- $5.00
- Rice- $2.00
- Milk- $3.00
- Total- $20.00

In this case, produce would represent 10% of the basket ($2.00 for bananas/$20.00 in total purchases). Meat would represent 40% of the basket ($8.00 for chicken breasts/$20.00 in total purchases.) This, of course, is over-simplified. But, imagine extrapolating this out across all shoppers and all purchases. In measuring this, HEB could assess whether fresh and all-natural products have taken a larger role in the consumer purchases. Thus, it takes intent to buy a step further and assesses whether that purchase activity is actually taking place, relative to all departments, categories, and sections in-store. Again, if this metric trends favorably, we'd have confidence that the assortment decisions HEB put in-place were right and have been well-received by the customer.

Of course, there are other metrics HEB could use; these are just a sample. And, yes, sales and profit are important. But, it may be worthwhile to think of lagging indicators like them as the destination. That is, they're backward looking. So, once you're able to measure them, you're unable to make corrections. Leading indicators, by comparison, provide insight about how well a plan is taking shape, exposing areas to influence strategy, implementation and execution.

BUILDING A COMPETITIVE ADVANTAGE

LEARNING OBJECTIVES

- Explain how a retailer can build a sustainable competitive advantage

Regardless of the industry, market or segment in which a firm competes, their over-arching goal is to create sustainable competitive advantage.

Sustainable competitive advantage means that a firm has an edge over their competition, which competitors cannot easily overcome and is thus enduring over time. These advantages can be in intellectual property, including technology leadership and strategic assets, scale, or barriers to entry. They allow the firm to compete on differentiation or cost in markets spanning from niche to mass.

Note: competitive advantages support HOW a firm competes. They are not WHAT a firm does to compete. Think about Wal-Mart, for example. One might argue that low prices are their competitive advantage. However, other retailers can and do reduce their prices to match Wal-Mart. Instead, Wal-Mart has an unmatched supply chain, focused on reducing costs. This focus extends from vendor relationships and negotiation through the distribution network to store operations and to the advertising. That is, at every step of the supply chain Wal-Mart seeks to reduce and remove costs. Further, they communicate this advantage to their customers; their brand is synonymous with value.

Thus, a competitor can't simply reduce costs to compete with Wal-Mart because Wal-Mart's competitive advantage is the infrastructure that supports the entire supply chain, which is focused on cost reduction. Further, Wal-Mart's price leadership is part of their branding and well understood by consumers. So, while a competitor may be able to match prices, they have a different cost basis than Wal-Mart and thus reduce their own margins in reducing costs. Over time, this makes them less competitive because they do not have the resources to invest in their business to match Wal-Mart's capabilities.

Think about Amazon as another example. As you've read, there is a heightened interest in convenience among consumers. So, it might be compelling to think that Amazon's competitive advantage is that they offer at-home delivery. However, this higher level of service to support convenience is an output of their true strategic advantage–impressive infrastructure to support efficiency in transactions and fulfillment.

Think about the wide breadth of products available at Amazon. Their algorithm recommends adjacent and complementary items. Their extensive network of warehouses store, pick, and package products. Their relationships with logistics partners like UPS and the United Stated Postal Service support efficient delivery.

Hopefully, you see that delivery isn't Amazon's competitive advantage. Instead, their edge is infrastructure through their web interface, their algorithm, their network of warehouses, and their relationships with carriers. These support transaction and fulfillment, which enables them to provide an expansive set of products and deliver them at very low costs.

Firms may possess powerful internal strengths like patents or customer contracts that would be costly or time intensive for a competitor to replicate. Or, they may compete with a robust distribution system that is so expansive that competitors cannot match it. Or, they may operate in a market so concentrated that they already possess the bulk of the market share or potential, making it unattractive to other competitors. Regardless, these advantages inform HOW the firm competes. When the advantages are sustainable, they create an on-going edge that competition cannot bridge.

RETAIL GROWTH OPPORTUNITIES

LEARNING OBJECTIVES

- Classify strategic retail growth opportunities

Growth is an imperative in business. And, while it may be tempting to cynically question whether growth should be an objective in its own right, it's important to understand that growth has two benefits. The first is that firms often access capital through loans or other financial instruments. Thus, growth is required to repay lenders and investors with interest. In doing this, firms maintain access to capital, which funds new initiatives that drive innovation. Second, growth is a reflection that the firm is meeting customer needs. Thus, there's a virtuous cycle:

- Firms access to innovate
- Innovation attracts customers, who increase their spend with the firm
- The firm repays its investors with interest before accessing new lines of capital to invest in innovative strategic initiatives to service customers better

Growth is a positive and reflects that the firm is delivering customer value. Yet, there are many paths to take to drive growth. At its most basic level, they can be evaluated as penetration, expansion, development, and diversification. The easiest way to think about this is by imagining a simple matrix.

Firms can grow with their current customer target and current business by increasing penetration levels. For retailers this means capturing a larger share of their shoppers' spending by increasing the frequency of trips or size of transactions. What's important to understand here is that the firm stays within its current scope of capabilities, and customer target.

Firms can also choose to grow by targeting new customers with their current offerings. In retail, we'd typically think of expansion as opening new stores or outlets in a new market. Kroger is a good example of this growth strategy, as they have acquired other supermarket chains like Dillon's, Fry's, Smith's, and others to extend their geographic footprint across the country.

Firms may choose to grow through development, such as servicing their current target with a new business. In retail, we'd consider an expansion of services like online ordering or at-home delivery of the creation of a new format. Wal-Mart provides a number of good examples of this. Their acquisition of jet.com gave Wal-Mart new capabilities in e-commerce, accelerating what they could have developed on their own. Similarly, their test of multiple formats like Wal-Mart discount stores, SuperCenters, Neighborhood Markets and Wal-Mart Express reflects an effort to satisfy their current target with slightly new businesses.

The final way a firm can choose to grow is through diversification: targeting new customers with a new business. The best examples of this within in retail are outside of the food space. For example, in fashion retail, some brands own manufacturing and retailing functions; they are vertically integrated. This is more difficult to do in food retailing because the product assortment is not necessarily unique across outlets. That is, a can of Campbell's

Condensed Tomato Soup is the same whether it is found in a Kroger or a Target or a Piggly Wiggly store. That said, diversification can be a viable strategic growth strategy, especially if a retailer has the means to develop and produce its own store brand/private label items.

PUTTING IT TOGETHER: STRATEGIC RETAIL PLANNING AND MANAGEMENT

Indeed, you can't be all things to all people. As you've read, finite budgets force firms to prioritize and focus. Regardless of how well resourced or capable a firm is, it must determine a single strategic direction, making trade-offs between alternatives.

To do this, the decision-makers within a firm must look inward at itself and outward, assessing the market and the factors influence it, including consumer attitudes, technology, and regulation. The firm must evaluate the needs of the consumer, their own capabilities, and the relative position of their competition. They must consider the financial implications of their decisions, balancing risk with the likely return. All of this is done so that the decision-makers are equipped to make the decision they believe will best position them for sustained success.

The strategic decisions firms make impact the markets they enter, the products they make, the consumers they target, their marketing investments, and more. For their part, retailers shape their offerings to position themselves for a distinct target, differentiating themselves in-market by providing what their target values. Every element of the marketing mix, also known as the 4Ps–product, place, price and promotion and the additional 2Ps of retail—people and presence, are impacted by the chosen strategy.

Will they compete on product or service? Will they compete by offering the lowest possible prices? Will they try to provide added value to support higher prices? Will they promote? Will they pulse discounts through a weekly circular or offer everyday low prices? Will they allow display merchandising or sampling to support promotions? What channels will they develop; brick & mortar, e-commerce, or a multi-channel strategy?

Each of these decisions is informed by the firm's assessment of the strategic opportunity. They aren't individual decisions arrived at by accident or impulse. Instead, they are the result of careful consideration. They are the result of a formal process: strategic planning. The five steps of strategic planning are:

1. Objective Setting
2. Situational Analysis
3. Customer Analysis (including segmentation, targeting, and positioning)
4. Tactical Planning
5. Implementation and Control

The outcome of this strategic planning is a marketing plan, the "road map" for how the firm will pursue its strategic objectives. This shared document ensures that the entire organization is focused on the single, chosen strategic direction, which decision-makers believe provides the greatest likelihood of success.

MODULE 6: TRADE-AREA ANALYSIS AND SITE SELECTION

WHY IT MATTERS: TRADE-AREA ANALYSIS AND SITE SELECTION

Your company is planning a second site for your upscale steakhouse. You have three options available to you.

1. A large space in one of the largest indoor malls in the city
2. A medium-sized space already setup for a restaurant in the lower level of downtown corner building
3.

Picking one is a huge decision! Does the population have enough disposable income to keep your new location busy? Are there enough people within the trade area to sustain your business? What about competition, parking and all those other little things that will make you a popular and profitable destination or not?

The site you pick to open your retail business will either make or break the business. The exact same business could be opened in multiple locations with completely different results. So picking your site is the single most important task when you decide to open a retail location.

INTRODUCTION TO SELECTING A STORE LOCATION

Your stores location will ultimately influence the consumers view of your company [brand]. Opening a store in the wrong location will cause your shop to stick out in a bad way. Think wearing a tank top to a black tie event. Consumers will be confused if the store seems out of place and ultimately not shop.

Studying customer foot traffic, walkways and outside factors all come into play when selecting a store location. Having consistent walk by foot traffic will cost more in monthly rent. If you are selling impulse purchase items this is a big benefit. Opting for a 2nd or 3rd floor location will save you money on rent and provide privacy. Stores planning on doing extensive marketing would benefit from the cheaper monthly rent.

In a mall, designers use elevators and escalators to encourage movement around the mall and impulse purchases (https://www.kone.bg/Images/handbook-planning-retail-people-flow_tcm100-19032.pdf).

ENVIRONMENTAL ANALYSIS

You are a consultant and have been hired by a high-end steakhouse to find a location for their new restaurant. They are looking at several locations, but are concerned about making sure the area where they locate can support their price structure. They know that there are many options to eat in the community they are targeting. When looking at the environmental aspects of this location analysis process, where would you start?

https://www.thebalancesmb.com/choosing-a-retail-store-location-2890245

https://www.entrepreneur.com/article/73784

Watch this video online: https://www.youtube.com/embed/T1dg_KAy3tI?feature=oembed

After reviewing the articles and watching the video, what things are important in analyzing the environment for a new business?

There are many environmental factors that surround customers and competition. The changing retail scenario is important to note, especially at the point where you are selecting a location. Changing locations is difficult and costly, so insuring a good fit from the beginning through effective analysis processes is an important step.

Economic factors

- Can a location afford the prices charged by the new steakhouse? Research income levels, median house prices, education levels and other aspects of the financial demographic status of an area to see if this would be a good fit. Checking out other restaurants and retail stores in the area will also be helpful here.

Demographic and social factors

- Ages of the people in the community, along with information on shopping (in our case eating out) habits are helpful. Is there a large number of double income families? Do many of the families have young children? If the population of the area does not need your product or service, it will be impossible to create a successful retail endeavor.

Brand Profusion

- What other restaurants or retail stores are in the area? If there are too many similar to yours it may be difficult to create a market share in a location. If there are already four steakhouses in the area, at varying price points, breaking in to the market may be complicated.

So once you have done review from an environmental standpoint, take a look back at the four "P"s of retail sales

1. Place
2. Product
3. Price
4. Promotion

When looking for a place to put your new endeavor, you need to also make sure that the market WANTS your product and are WILLING to pay the price your product demands. Location (PLACE) is the key to a successful endeavor, but you must insure that the place you pick will support the product and price.

DATA ANALYSIS FOR LOCATION SELECTION

There is a fun little storefront available that would be PERFECT for your new boutique! As cute and affordable as this space is, how will you know if it will be a successful space to locate? Can you do what you want here? Are there competing boutiques, enough parking, and proper zoning? There is so much to think about and look at when choosing a location for your business!

https://www.youtube.com/watch?v=CBnK93hjbO4

Multistore retailers have additional location issues to deal with: https://youtu.be/chqTPpJhhjw

Moving a business is expensive. Analyzing the location choice is important from the onset, so that moving does not become an issue down the road. Since a poor location can limit the success of a store and may actually be instrumental in the demise of a store, the initial research and analysis is a step that needs attention when you look to open a retail space, whether it is a small boutique or a new Walmart store,.

A retailer with an excellent location has a strategic advantage to other similar retailers. A product or service that sells like hot cakes in one area, may not sell nearly as well in another location, or may not sell at all!

There are new challenges in retail location analysis https://youtu.be/1qKCt9_NfyI

With the advent of technology, online shopping and next day delivery, it has become even more vital to do the proper analysis prior to opening a brick and mortar retail store. In determining a location we first want to evaluate :

1. The alternate geographic trading areas: Trade areas are defined as a contiguous geographic area which accounts for the majority of a stores sales and customers. If you are a small local business, this will be a narrower area, but if you are looking for space for a larger retail outlet, you will have many options available, such as rural, suburban, metropolitan and others. Needing a specific amount of per capita buying power is important. As discussed in the previous section, if the people can't afford your product, or there are not enough people in a certain area to buy your product, it will be difficult to be successful.
2. Determine the type of location- When looking at possible types of locations, you will need to evaluate:
    1. Population- are there enough people in the area
    2. Is the density of the area suitable to meet our needs?
    3. What are the characteristics of the population?
    4. What is the income level and social and cultural mix of the population?

- **Literacy of the population:**

    1. What is the literacy level and educational level of the populations?
    2. What languages do they speak and what is the religious structure?

- **Trading factors:**

    1. Are there other stores like yours in the area?

    2. What do they stock and what is the reputation of these stores?
    3. Is there are large enough trading area for you to flourish along with the others?

2. Accessibility:
    1. Can people get to you?
    2. Is there parking and how far are you from other retail areas?
    3. Is it safe for pedestrians to get to you?

- **Amenities:**

1. Are you planning to be open when people want to shop?
2. Do you do deliveries, online ordering and accept credit cards?

There are so many factors to consider, and we will review many of these as we move forward in the course. It isn't as simple as hanging out a shingle. The importance of analysis as you decide WHERE to place your retail store or restaurant may result in your success or failure as a business!

LOCATION EFFECTS ON PLANNING

When you open a new retail location, the hope is always for a long successful business. Recent closings of what looked like successful business operations has shed new light on the importance of proper site selection, proper analysis when securing the site, and meeting the needs of customers once you have located your space.

https://www.thebalancesmb.com/all-us-store-closings-2891888

Knowing the demographic of your location is a very important part of long term planning. Knowing if the population will be customers into the future, can be important. If the area is a highly transient population, a college town for example, where you get a continued influx of 18-22 year old students, locating a coffee shop near campus may be a great idea. If you have a similar transient area where young families move in and out (a first time homebuyer community), opening a daycare center would be a prudent long term business.

Being able to ebb and flow with changes in demographics is another long term planning option. An example might be a restaurant in an upscale retirement community, having the ability to also meet the needs of a changing demographic through different food or price points over time.

Looking at the history of the planned location can tell a story. If it was a once thriving community that is starting to suffer from neglect due to a turn to more rental properties rather than owner occupied homes, that may be a sign that the neighborhood is changing in a way that may not support your retail endeavor. On the other hand, a rundown community, that has recently seen an upsurge in restoration and new building, along with owner occupied spaces or a new and upcoming art center, may be the perfect place to locate long term.

Picking the space that will work in the long-term is important in your planning. Having the ability to grow or change with the community will be an important component of long term success.

INTRODUCTION TO RETAIL TRADING AREA

Retail trading areas can be primary, secondary or fringe. We will discuss each and determine ways to identify the trading areas for a new or expanding retail establishment.

Review this website for trading area information.

https://fyi.uwex.edu/downtown-market-analysis/understanding-the-market/trade-area-analysis/ has a great deal of helpful information regarding retail trading areas in small city downtown areas.

https://www.tutorialspoint.com/retail_management/retail_business_location.htm has some interesting information on types of retail trading areas.

U.S. CENSUS BUREAU AND DEMOGRAPHIC DATA

So remember back to the last section! We found this awesome spot that would be IDEAL for our new retail location. Well, we think it will be awesome, but there are so many things to think about and analyze before we can say for SURE this space will work! We need to know if there are enough people, with a high enough income and the right demographic to shop in our retail store. We also need to make sure we have parking and access, along

with knowing the competitive environment. So where should we start? Well, the U.S. Census Bureau collects TONS of information!!

The U.S. Census Bureau

A census gathers information from every household in the United States every 10 years. This data includes:

1. Number of people in the household.
2. Household relationships
3. Age, sex, race and marital status
4. Number of household units in each address
5. Status of the plumbing facilities, number of rooms.
6. Owner occupied or rental
7. The value of the home and the vacancy status

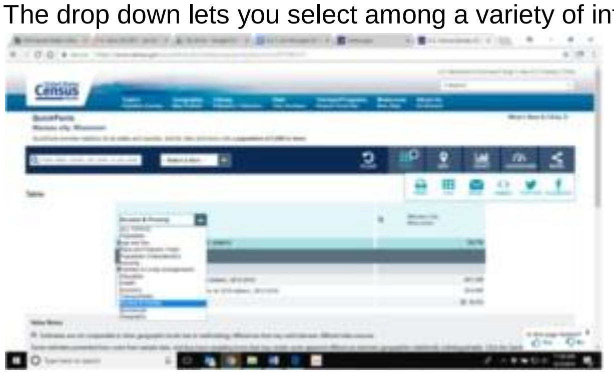
Census data CAN be out of date, since it is only gathered every 10 years, but it is a good place to start your research once you have chosen a general area.

https://www.census.gov/quickfacts/widget_310x175.php/?qfembed=5f1bez6mb

This Quickstart will help you pinpoint the demographics you need to get started! Note: Quickstart is only available for towns over 5,000 people, so if you are working with a small town, you may need to do some different research! Let's look at Wausau, Wisconsin as an example.

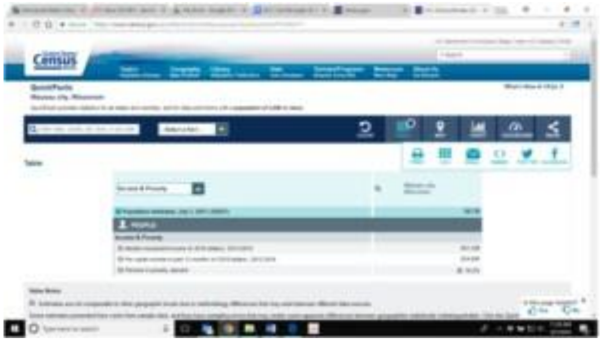
https://www.census.gov/quickfacts/wi

The drop down lets you select among a variety of information choices.



So, looking at the median income of the Wausau, Wisconsin area, if you are planning to put in an upscale steakhouse, do you think it would make sense? What if you were planning a McDonald's or a Taco Bell?

What other information might you be interested in reviewing?



In this Quickstart, you have access to a variety of topics such as population, age and sex, race, health and economy, among others. Take some time and do a little research on the U.S. Census website. Think about a business location and business idea. Then wander out there and do some research. Do you think the community you chose would support your business idea? Is the population enough? Does the education level support your business? Have fun with this website for a bit, daydreaming about your big idea!

So remember, this data is only collected every 10 years, so it may be a bit outdated. It is a good starting point though to review your idea to see if the location is feasible.

GIS AND LOCATION DECISIONS

So you looked at your census data for your area, and you are still feeling pretty confident that you have chosen a good location for a retail business. It seems like the population will support your endeavor with a suitable income and education level, among other components. So what is next? Well, GIS might be your next step!

A geographic information system (GIS) is a system of hardware and software that can store, retrieve, map and analyze geographic data. This system can help an analyst visual information about customer buying behavior and demographics in a map format! So this process can help you to identify the boundaries of your trade area and isolate target customer groups.

How does Wendy's restaurant use GIS?

Watch this video online: https://www.youtube.com/embed/j0iBhEEVPGc?feature=oembed

Typically, there is a user friendly interface so you can access and analyze data pretty easily. The output from these systems are maps, so you can visualize the implications of the date quickly and easily. Now, remember, the U.S. Census data is free to access, but it is typically outdated. GIS data on the other hand has a fee, but it is current and updated frequently!

Take a look at where GIS started.

Watch this video online: https://www.youtube.com/embed/43pHfDv6wtQ?feature=oembed

ESRI is a company that provides GIS data to businesses. Review their website to see all the cool stuff you can do with data!!

Nielsen is one company offering a wide range of tools that are useful to assess consumer demand in an area. Watch the short video to see what can be found through GIS analysis. GIS is an extremely useful tool to create effective and targeted marketing campaigns.GIS allows an overlay technique. You can purchase a bunch of data sets for an area, including population count, income, and competitor information. Then you can layer these bits of data on top of each other to see the data in a different way. It allows businesses to make decisions based on many factors rather than just one.

Imagine being able to pinpoint a demographic based on many different pieces of data allowing you to not only determine if a location is good to open, but then proceeding forward with data that allows you to directly market to your customer base! Now, you can see how PAYING for GIS data may be far more effective that just working with potentially outdated information from other sources!

FACTORS IN ANALYZING TRADING AREA

A trading area is the geographic area from where you draw your customers. There are three types of trading areas that are important to note:

1. Primary trading area- where the store is exactly located.
2. Secondary trading area- the shopping center or area where the store is located.
3. Fringe trading area- the city or town where the store is located.

You can picture these three areas as follows:

Your store is in the center of the primary area. Most of your customers will come from this smaller area as well. As you expand out, fewer and fewer customers will be coming to you. This is especially true if, for example, you are a small convenience store or drugstore. If, on the other hand, you are planning to open a Trader Joe's, Marshall's or T.J. Maxx, you may get your draw from a wider area. So, if you are planning to open a small, local retail store, you need to make sure that the area immediately surrounding your location has:

1. Enough consumers
    1. Are there enough people living in the area, with access to your retail space to create sales for your product or service?
2. Enough money to spend
    1. Spending potential index- compares the local average expenditure by product to the national average amount spent.
3. A need for the product or service you are bringing to the area
    1. Is there a market for your product? Here is where the census review, GIS services and other analysis processes will help determine if your market exists!
4. Competition in the trading are
    1. Using the internet as a tool, review sites like Yelp, use the map function and note who is located in your geographic area. It is also possible to use directories published by trade associations, the local chamber of commerce, municipal and city government or Chain Store Guide (published by CSG Information Services) to see who the competition might be.

So, again, analysis is the crucial component. Even with analysis, there is a possibility that a business may not work. As an example, a yoga teacher opened a studio in a small town where no other studios existed. It seemed like a perfect opportunity to tap an untapped market right? Well, the problem was, there were not enough people in the market for yoga classes. So what happened? The studio was open for a few years, marketing heavily to the local area, but ended up shutting their doors when they couldn’t create enough sales to be profitable.

INTRODUCTION TO AVAILABLE RETAIL LOCATIONS

There are multiple location options available to retailers. Downtown areas, enclosed malls, strip malls, stand alone or online. Where you locate depends on your product or service and where people looking for the product or service shop!

We went through the process for deciding if an area was suited to your business, now let's look at what the options are.

COMPARING LOCATION BENEFITS

Where are you going to locate your business? A mall? Main Street? Or off the beaten path somewhere? Each potential area has pros and cons to consider!! Let's take a look at some of these spaces!

Unplanned shopping areas, also called central business districts (CBD), are spaces that have simply developed over time. A downtown area in a small town, neighborhood districts or strips along highways would be considered unplanned locations. These were not intentionally create as areas for retail to be located, but have morphed and developed into shopping spaces. These unplanned shopping spaces may be freestanding , isolated stores in rural locations too. Unplanned shopping areas have their pros and cons. Typically, they have developed out of need. They may have high pedestrian traffic or be located near public transportation. Unfortunately they also have parking issues, security issues (each business would need their own) and a potentially high shoplifting rate.

These unplanned spaces have some of the coolest non-traditional spaces. A farm store that sells products from the farm in a rural location, or a restaurant that is off the beaten path. These fun little places that are most likely freestanding, potentially in isolated areas have several advantages. The cost of occupancy may be quite low. They are separate from competition and there may be few restrictions for them to operate. Parking can be pretty easy too. Unfortunately, these types of locations won't get any foot traffic and there are no other stores drawing business to them. They need to stand out and have something worth travelling to get!!

Planned shopping areas include malls, which were architecturally designed for shopping. Many have anchor stores, or large retail stores, with smaller stores between them. These locations can be strip malls, enclosed malls (like the Mall of America), or any other intentionally created space for retail. Typically, these places are owned by a property development firm, with many tenants, shared common spaces. These planned spaces typically have high visibility and customer traffic. Once shoppers come in, they walk around, right? Parking is usually in a lot format, so lots of space to park, but the cost of occupancy in these planned areas can be high. This can be offset with greater sales, due to the additional foot traffic, but it is definitely something to consider.

There are a variety of planned shopping areas including:

1. Omnicenters are large planned centers that may include a variety of retail formats in a single shopping location. Usually put in larger population areas, they are intended to meet the needs of cross-shopping consumers.
2. Lifestyle centers are located in upscale areas and have specialty chain stores, restaurants and even theatres.
3. Outlet centers are another form of planned shopping area. Originally, these locations were used to sell damaged, discontinued or surplus merchandise, but they are now selling product made by retailers specifically for the outlet stores. These products may be of a lower quality than sold at their regular retail outlets.
4. Mixed use developments may have shopping, restaurants, hotels and residential space all within one planned space. People can live, work and eat in a proximal area.

So whether you do all of your analysis and end up in a planned or unplanned space, each will have benefits and negatives. It will depend on what your product or service is, your price point and a variety of other demographics to determine the best location for your business. Finding this information using the U.S. Census Bureau, GIS analysis and other sources of information to determine a good fit.

INTRODUCTION TO SITE SELECTION DECISIONS

The site for a new business or an additional business location can be the difference between a successful start and an unsuccessful one. Making sure to take into account all of the aspects of selecting the correct site is extremely important. We have talked about ways to collect the data, from the U.S. Census to GIS methods. Let's summarize the important factors to consider when selecting a perfect location.

EVALUATING SITE CHARACTERISTICS

You have decided to open a new business, or a new location for your existing business. Several sites are available. How do you choose just the right one? We have talked about how to get the needed data, so now let's summarize the really important aspects of location. You have, I am sure, heard the old saying, that the success of a business is all about "location, location, location", and that is absolutely true!!

https://www.thebalancesmb.com/choosing-a-retail-store-location-2890245

https://www.buxtonco.com/blog/the-retail-site-selection-process

Entrepreneur Magazine has an excellent list of things to look at before picking a retail location. https://www.entrepreneur.com/slideshow/299849

Some of the items in this list can be part of a good review of the census or a GIS review. Some of these need to be done in person, walking the area!! Let's take a look:

1. Your style of operation- if you are going to start an upscale steak house in a neighborhood filled with dollar stores and fast food restaurants, you may want to rethink your choice. Your style doesn't match the area! There may be reasons that no one has started a fancy restaurant there yet!
2. Demographics- we have discussed this one in detail, but let's take another look. Who are your customers, how important is it to be close to your business and is the economic base of the location stable? If you plan to start a business in an area where there is one primary industry, it may be difficult to operate if that industry has a downturn.
3. Foot traffic- can people get to your door? How many people pass by on foot each day? This one will vary based on your type of business, but it is definitely important to consider!

4. Accessibility and parking- the most awesome business may struggle if there is not enough parking or your customers can't access it easily. A daycare center on the second floor of a building with no elevator, or a fitness center for senior citizens without handicapped accessibility might be examples of this problem. Make sure your target market can easily get to you!
5. Competition-so here is an issue that may be good or bad. If there are several restaurants in a particular area that are always busy and overflowing, it may be good to add another! Ah, but if there are already several barbershops that are not busy, it may not be good to hang out your shingle in that neighborhood. Who is the competition, how busy are they, and is there room for another similar business?
6. Proximity to other business and services-may also be good or bad. As in number 5, competition may enhance your business or damage it. It may also be good to open a complimentary business to those already in the area. For example a drop-in child care center next to a fitness center or spa might be very popular and needed!
7. The image and history of the site- a good history of successful businesses in a spot might be amazing! But what if the space you have chosen has had 5 different restaurants in as many years? Was it the location? The food? Poor management? It could have been ANY of these things, and you should delve deep to find out!
8. Ordinances-sometimes to get a space up to par is a challenge in a particular community or neighborhood. If you are interested in opening a coffee shop and would like to have outdoor seating and serve wine and beer, check with the town or city to insure that these things are options, and what the fees may be. A great location, isn't great if you can't do the things you need due to regulations, licensing and permit issues!! I recently had a conversation with a guy who bought a building to put small rental rooms into, but he found out it wasn't permissible in this location! He now needs to find a buyer for a building that has limited uses. A few phone calls may have averted this issue!
9. The condition of the building- it may be difficult to put a high tech computer store in a building with old wiring, or a laundromat in a building without sufficient water hook ups. Make sure that the building you are looking at will fit your needs from an infrastructure standpoint. Have it professionally inspected, and find out how much renovations may cost to make it work.
10. All the other costs- utilities, insurance, janitorial service, refuse removal and parking fees can all add up! That building with a low lease cost may cost more than you could imagine once you add all of those costs in. Find out what is included in the lease, and research the other costs before you jump in!

So, there is A LOT to consider when you think about picking a retail location!!

INFLUENCE OF SOCIETAL VIEWS

Society plays an important role in determining where to locate a business. In earlier units, we talked about an upscale, high end steak house. You would not locate this type of a restaurant in a community with a low median income, where they would be unable to patronize your business, right? What about opening an indoor playground geared for ages 2-12 in a retirement community? This doesn't make sense either!

Using data from the U.S. Census Bureau and any GIS analysis to determine if the space you are thinking about is really a good location is important. Your eyes are likely becoming blurry from all the details and statistics of finding a suitable location to open a profitable retail location, right? These are all important factors.

Let's talk about opening a restaurant. You want to open a small local bistro that serves only organic food. It is important to you that your lettuce is all organic, and the meat from humanely raised sources. What if you try to open this restaurant in a small rural community, where they don't understand the difference between a grassfed burger and a grainfed burger? Perhaps they haven't ever been exposed to lettuce other than iceberg, and they are certainly NOT going to pay $12 a plate for dinner!!

This situation actually happened! To me! I opened this amazing little restaurant. The price was right on the building, and there was nothing like us within 100 miles. Perfect spot right? We banked on tourists to fill our booths. Unfortunately, there were not enough tourists to make a profitable business. We were open for three years, then closed down and just did catering and private parties. Finally, in 2018, we decided to call it quits for good. What seemed like a perfect location at a perfect price was not. We didn't do our homework!!

So the societal environment is another component of a successful business location. Make sure to do your homework and find a space that has the right population to help your business grow!

HUFF GRAVITY MODEL

You have narrowed your possible new sites down to three locations! Each has met various aspects of what exactly you are looking for in a location. How might you want to proceed to compare these three to determine the best one? One option might be the Huff Model.

The trading area is the area where a business will be pulling customers from. Remember back to our model:

We have a primary trading area, secondary trading area and fringe trading area to review. Huff's model may be useful for helping us determine how many shoppers we may get in each of these areas.

Huff's model is a mathematical model that recognizes the correlation between patronage and distance from the location of the store. So in other words, the further a consumer is from your location, the less likely it will be for that person to shop there. This model does not account for other factors that may affect a customer patronizing your store, such as having a product or service that is specialized, that they cannot get elsewhere. It simply looks at the distance from the retail location.

This model can help you to determine areas with high and low sales potential based on several factors including how many people live within a certain radius of your proposed location and what the disposable income is in this market. Incorporating the Huff model along with GIS and census information can give potential new businesses a great deal of information about several possible sites.

If you would love to look further at how this model works, check out https://gisgeography.com/huff-gravity-model/ or https://www.arcgis.com/home/item.html?id=f4769668fc3f486a992955ce55caca18 for all the mathematical details!

COMMON LEASE TYPES

So you have finally, after tons of research and analysis decided on a location!! If you are not planning on buying, then you will probably be dealing with a landlord and a lease. There are several types of commercial leases that you may be offered. It is important to know how each of these leases work, and what you can expect to be paying. Location will have a strong bearing on the type of lease you might be looking at. The more attractive a location, the more costly it will likely be.

Let's first look at the base rent. How is the base rent calculated? It is typically based on the square footage of the space. According to Blasingame (2011). So once you pick out a few places:

"Since every leased space is different in size and price, here is a handy rule of thumb to help you start the elimination process. Ask the agent or landlord for the unit lease price – $8, $14, etc. – which is the price per square foot of the space per year. Multiply those two numbers and then divide the product by 12 to get the monthly base rent. Use this only as a quick tool to compare properties of different size and unit price."

So, if it is $8 and the space is 1500 square feet, you would take $8 x1500=$12,000 / 12 months = $1,000 per month. Then other costs may be added on, depending on what kind of lease it is.

Lahle Wolfe (2018) created a very nice list of potential lease types you may encounter:

1. Percentage lease- base rent plus a percentage of sales (Retail business-Mall)
2. Net lease- In addition to rent, you may be asked to pay some or all of the property taxes, insurance, or maintenance. (Any commercial lease)
3. Double net lease- You pay rent, plus taxes and insurance. (any commercial lease)-Two costs are added to your lease.
4. Triple net lease- You pay rent, plus taxes, insurance and maintenance. (Any commercial lease)-Three costs are added to your lease.
5. Fully serviced lease (Gross lease)- the landlord pays all or most of the usual costs, but they are built into rent, called a "load factor". (Offices, industrial and retail leases)

At the very least, you will pay base rent, which we talked about above. The fully serviced rent will likely be much higher than that to include a myriad of other expenses. If you have shared areas, such as lobbies, meeting rooms, bathrooms or other spaces, you will most likely be covering some of the expenses for those areas as well.

So now you know all there is to know about commercial leases!

References

Blasingame, J. (2011). How to lease commercial real estate part 1. Retrieved from https://www.forbes.com/sites/jimblasingame/2011/07/18/lease-commercial-real-estate-part-i/#41a06c985457

Wolfe, L. (2018). The different types of commercial leases. Retrieved from https://www.thebalancecareers.com/types-of-commercial-leases-3515438

PUTTING IT TOGETHER: TRADE-AREA ANALYSIS AND SITE SELECTION

The location, the demographics of the population, how many people live within the trading area, secondary trading area and fringe area, along with many other variables need to be evaluated when you are putting together plans for any retail location. Even online businesses need to know their market in order to advertise appropriately and reach the right consumers.

There are so many different facets to retail operations, and the location you choose to open your business is by far the most important. Knowing your competition, and businesses that may help your business thrive are important aspects as well.

The U.S Census is a good place to start, but you may need more current and detailed information regarding your market, which can be obtained through GIS systems. Being able to overlap data to find the best possible location options is available through the use of GIS.

Building a new business is tough, so use all of the available resources to help you find the perfect location with the perfect consumers.

MODULE 7: INFORMATION SYSTEMS IN RETAIL AND CRM SOFTWARE

WHY IT MATTERS: INFORMATION SYSTEMS IN RETAIL AND CRM SOFTWARE

Retail businesses are facing some of most daunting challenges to their survival ever. Retail bankruptcies, re-organizations and store closures are at an all-time high. With the disruption caused by online companies such as Amazon.com, once-thriving shopping malls and strip centers are closing or being converted to other commercial uses.

While many of retail's name brands being hard hit, other retailers are growing and thriving. Traditional mall "anchors" such as Sears, Macy's, JC Penney, and Kmart are struggling to find their way. That said, retailers like Ikea, Walmart, Ulta and H&M are expanding and opening new units.

There is no single factor that explains this dichotomy of success and failure, but certainly the ability to leverage the latest technology to make better business decisions is a common denominator for success.

Case study: H&M is a clothing retailer founded in 1947, but in the last decade the company has exploded to $20.3 billion in annual sales. The company has 3,500 stores spread across 55 countries, a huge world-wide supply network, warehousing and logistics to manage. While H&M is given credit for its ability to follow fashion trends, the underlying secret to its success is price economy and reduced lead times.

They manufacture 80% of their inventory in advance and wait until the last minute to order the remaining 20% to take advantage of current trends. Inventory management systems allow them to control this mix in their stores. Supply chain management systems allow them to team with their manufacturers to achieve affordability and reduce manufacturing lead times by 15-20%. Reduced lead times reduce the risk of buying the wrong products.

In this unit, we will be discussing some of the key technologies that are contributing to retailer success.

INTRODUCTION TO CENTRALIZED DATA HUBS

What you'll learn: We will explore some of the key technologies retail businesses have adopted to meet their goals. How do retailers keep track of all of the products they sell? What are the benefits of data-driven information technology? What are the key information systems that can support better business decisions? What are data warehouses and how are they used?

METHODS TO GATHER INFORMATION

LEARNING OBJECTIVES

- Identify some inconclusive methods retailers may use to gather information and make decisions

One of the challenges of a retail business is the need to purchase inventory well in advance of customer demand. Traditionally, retailers have relied on observation and even intuition to guide their purchasing decisions. Retailers can do this by listening to customer comments while they shop, noticing out-of-stock conditions on store shelves, visiting competition, and conversing with suppliers to receive (somewhat biased) information.

Beginning roughly in the 1960s, the evolution of marketing as a discipline presented retailers with more interactive techniques to gather information about their customers. They began using surveys, interviews, and focus groups.

Before sophisticated information technology, retailers relied largely on prior activity and this “anecdotal” information on which to understand their customers. Technology was kept in the back room and used for simple business operations. Now, data-driven technology is at the core of retail business.

To run a successful retail business, management must be able to answer questions that only information technology can provide. Which are our most profitable store locations? What products are selling best and are the most profitable? How is our customer base changing its buying pattern? Is our flow of inventory in line with anticipated sales?

Today, the latest data-driven technology has even changed the paradigm from asking what all of our customers will want to asking what EACH of our customers will want.

RETAIL INFORMATION SYSTEMS

LEARNING OBJECTIVES

- Define retail information system and the data it stores

Retail information systems have evolved in similar fashion as business computing in general. More data has created the need for larger storage and faster processors. The need to give wider data access to more employees, so-called “data democratization”, has necessitated de-centralizing information platforms and increasing ease-of-use. We have seen platform evolution from mainframe systems to client/server to cloud and now to mobile platforms in retail information systems.

Today retail information systems (RIS) vary in platform, cost, and functionality–and range from simple to complex. Simple systems can support point-of-sale (POS) transactions and keep track of sales activity. Complex systems, designed for large enterprises, can manage all aspects of the business: POS, Supply Chain, Finance, HR, CRM and more. Whether simple applications or complex systems, modern retail information systems all utilize databases and provide access to stored data through Graphical User Interfaces (GUI).

POS informs retailers of the details of sales transactions: what item was sold, where the transaction occurred, at what price, what employee performed the sale, and information about the customer making the purchase. Supply chain management systems (SCM) track the origin of the product even before it arrives at store or warehouse (and will be discussed in more detail in the next section). Financial data systems provide management with data concerning the organizations profit and loss factors. Human resource systems (HRS) keep track of employees: status, title, employment type, salary, address, etc. Customer relation management systems (CRM) track customer information and will be discussed in a later section.

DATA WAREHOUSING AND DATA MINING

LEARNING OBJECTIVES

- Differentiate between data warehousing and data mining

All of the RIS we have discussed so far have one major thing in common- an underlying database to store their unique data. Through the process of mergers and acquisitions, most large retailers inherit duplicative systems that continue to exist independent of each other due to the large cost of consolidation. With data "everywhere", retailers turn to the latest IT techniques.

Data warehouses (DW) are created to bring related information from disparate databases to one large database so that it can be easily analyzed.

In computing, a data warehouse (DW or DWH) is a system used for reporting and data analysis, and is considered a core component of business intelligence. DWs are central repositories of integrated data from one or more disparate sources.

Once the data has been migrated to the DW, data scientists can begin to provide retail management with meaningful information through the practice of data mining. Data mining is the process of discovering patterns in large data sets and involves methods at the intersection of machine learning, statistics, and database systems.

With the mining of information in the data warehouse, management can gain valuable insights as to how best to run the business. This is usually accomplished through queries and reporting.

Queries are business questions translated into code to bring results from the DW. What is our best-selling product line? What is the profit margin on our private brand versus the name brand products? Who are our best customers? How do our online sales affect our inventory position for our stores?

Business reporting is simply scheduling the most common or requested queries at regular intervals and pushing the information out to the organizations information consumers on a regular basis.

One of the most notable data warehouse success stories comes from the healthcare industry in the 1990's. A large national health management company had more than nine regional centers, each operating semi-independently. Each regional center had its own management and business infrastructure, including information technology.

The company's top medical experts noticed that the care being delivered for its diabetes patients was inconsistent across the regions. Some regions claimed that certain treatments were more effective, but came at a higher cost to the business. But the real problem was that the clinical data needed to understand what was the most effective treatment was locked up in 10 different databases, many of which were using different database software.

A data warehouse was constructed, pooling the data from all of the regional warehouses and providing access for the first time for national clinical research analysis. Out of hundreds of different treatment programs, three were found to be the most effective, and of those, two were found to be the least expensive. These data warehouse results were a win for the patients, doctors and the business.

UPC, RFID, AND QR CODES

LEARNING OBJECTIVES

- Describe the purpose of UPC, RFID, and QR codes

There are three common technologies retailers use to identify and track individual product units in retail sales transactions, inventory management and distribution, or supply chain- UPC, RFID and QR codes. Most of these symbols are quite familiar as we see them on a daily basis.

The Universal Product Code **(UPC**) is a barcode symbology that is widely used in the United States, Canada, United Kingdom, Australia, New Zealand, in Europe and other countries for tracking trade items in stores.

Radio-frequency identification (**RFID**) uses electromagnetic fields to automatically identify and track tags attached to objects. The tags contain electronically-stored information. No line-of-sight is required to receive information from RFID which makes it better suited for inventory flowing through a warehouse conveyor system, for example.

A quick response code (QR code) is a matrix barcode made up of dots. Because it is two-dimensional, it can hold substantially more data than one-dimensional barcodes, such as UPC. It can be read by a QR scanner or by a smartphone with a camera.

This YouTube video does a fairly good job providing some background information on this technology. It discusses the origin of bar codes, describes how they work, and helps us understand the evolution to QR codes.

Watch this video online: https://www.youtube.com/embed/qYvqFV4Rf8c?feature=oembed

INTRODUCTION TO SUPPLY CHAIN MANAGEMENT

What you'll learn: We will explore how retail businesses leverage technology to manage the supply chain. What is a supply chain? How can retailers have the right products at the right place at the right time to maximize sales? How does supply chain management impact the bottom line? What happens when retailers and vendors establish cooperative relationships?

SUPPLY CHAINS

The supply chain is the entire sequence of activities involved in taking natural resources and raw materials and turning them into a product for the consumer. It includes all the actions, organizations, materials, systems, people, and information involved in that process.

Retailers, like all business-to-consumer organizations, aim to match and maximize demand with supply. This means that the right products need to be in the right place in the right quantities at the right time. Given the millions of products sold daily by large retailers, SCM systems ensure replenishment inventory is being received on time at retail distribution centers and warehouses. By effectively managing supply chains, retailers can realize their sales goals.

In the earliest days of the automobile, Henry Ford made a decision to own or control the full supply chain—from the mines that provided the ore to the factories that made the glass. Raw materials—iron ore, coal, and rubber, all from Ford-owned mines and plantations—came in through one set of gates at the plant while finished cars rolled out the other. Today it is exceptionally rare for a company to try to own all the raw materials for a physical product. Even software products use preexisting software frameworks and code.

FLOW OF GOODS

LEARNING OBJECTIVES

- Describe the flow of physical goods through a supply chain

Based on the type of retailer, supply chains can range from simple to complex. For example, Mom or Dad supplying fresh pitchers of lemonade to the children's corner drink stand would represent a small-scale supply chain (of course the lemons and water had to come from somewhere, but for the sake of argument let's keep this one simple).

For a national electronics retailer, the supply chain would obviously be more complex. Starting with the vendor, component parts would be sourced in various countries depending on price, quality and availability. Those components would then be shipped to other countries for assembly, quality inspection and packaging. From there the finished product could be transported via ship, air, and land to the retailer's receiving/distribution centers for further handling and ultimately, distribution to stores or direct to the consumer.

This example itself is very simple as there is much complexity beneath the surface. The vendor and the retailer must have a strong working relationship in order to plan, execute and finance the anticipated consumer demand as partners. The retailer must be responsible for identifying the correct product for its consumer customer in the first place. Retailers must forecast the sales potential for these products, along with marketing, promotion and appropriate distribution of the product. The vendor has to manage all phases of the product lifecycle from design to manufacture to transportation all "just in time".

Every product is different and may have a different supply chain strategy. As products are manufactured, they "move" from raw materials or components to finished goods. At some point in that process, RFID or other identification means are implemented to monitor where the product is in its manufacturing lifecycle. The movement through the supply chain process continues when products are aggregated for shipment where they can be tracked during the transportation leg of the supply chain.

Zara is a large international retailer with 6,900 stores in 86 countries. While many large U.S retailers like JC Penney, Sears and Toys 'R Us are closing stores, Zara is opening an average of 400 new stores a year over the past five years. The key to Zara's success is their agility due to a finely-tuned supply chain. Incredibly, the company designs, manufactures, and distributes fashion products within 2 weeks from the time they appear on the catwalk. Zara does commit 15-25% of its inventory prior to the design season and fills in another 25% at the start of the season, but an amazing 50% of its clothes are designed and manufactured in season. Zara must closely manages every aspect of the supply chain in order to execute so quickly.

SALES AND INFORMATION SYSTEMS

LEARNING OBJECTIVES

- Explain how a good supply chain management system can increase sales and profits

Given the definition of a supply chain and some brief examples, one can imagine how difficult it must be to manage all of the moving parts of the process. Supply Chain Management systems (SCM) have been developed to help organizations do exactly that. A good SCM system ensures that the right inventory is in the right place to meet anticipated demand. This serves to maximize sales potential and drive profitability as the retailer's investment is returned.

One of the most important factors in a retailer's profit picture is inventory turnover. Before operating expenses, payroll, and other costs are factored into a P/L statement, the retailer profit model is founded on three basic components: cost of goods, sale price of goods, and inventory turnover. If a product is purchased by the retailer for $10 dollars and sold to the consumer for $20 dollars, the gross margin for one sales transaction would be $10 dollars. Turnover represents how many times that transaction takes place. If the retailer's inventory is in the right place at the right time, turnover is increased and more gross margin dollars are generated.

In addition to the enormous importance of inventory turnover, a good SCM system can also help drive efficiency throughout the product lifecycle, reducing costs and time-to-market. With the metrics that these systems provide, managers can make better decisions as to who/where are the best sources of supply, how much lead time is needed to ensure on-time delivery, what are the best transportation methods, etc.

SUPPLIER AND RETAILER COORDINATION

LEARNING OBJECTIVES

- Summarize the benefits of a coordinated effort between suppliers and retailers

Vendors and retailers can coordinate their efforts in several ways. They can coordinate in planning sales and inventory levels, as well as in planning promotions and by sharing real-time sales data.

Retailers have a variety of methods to plan their business. One of the most common is to predict future sales based on prior years' performance. Through the use of "sales history", a retailer has an empirical basis on which to plan future expected revenue. Once revenue is estimated, the business can then plan several important other factors in order to execute their business plan. How much inventory will be needed to achieve the expected sales? What marketing/promotional support should be in place to support the planned sales?

It is easy to see that having close vendor partnerships is crucial for successful retail performance, since suppliers will need to have their products available for the retailers to sell. Often, retailers will solicit vendor support for key promotions as both will benefit from successful mutual marketing campaigns with increased business.

With cooperative planning, both retailer and vendor will realize not only predictable revenue, but revenue that maximizes profit due to efficiencies and economies of scale. Consumers will also benefit due to the same factors- more product quality due to better sourcing, lower costs due to larger buys, etc.

COLLECTION

What you'll learn: We will learn how retailers use technology to keep track of their customers. What is Customer Relationship Management? What information do CRM systems collect and how can this benefit the retail business? How do CRM systems capture customer information? Do CRM systems cross the line and violate customer privacy?

CRM

LEARNING OBJECTIVES

- Define the purposes of a CRM system

CRM systems are powerful software systems that serve several essential functions for marketing and sales. Retail organizations use them to:

- Capture internal data about customers and customer interactions and house these data in a central location.
- Provide business users with access to customer data in order to inform a variety of customer touch points and interactions.
- Conduct data analysis and generate insights about how to better meet the needs of target segments and individual customers.
- Deliver a marketing mix tailored to the needs and interests of these target segments and individual customers.

Leading providers of CRM systems include Salesforce.com, Oracle NetSuite, and Microsoft, as well as smaller players such as Lightspeed and Springboard. These large, many-faceted systems include several components. Databases provide information infrastructure for storing and accessing customer information. Contact management capabilities allow organizations to track a variety of customer interactions, including how each customer or prospective customer relationship is progressing over time.

CRM packages also include sophisticated analytical tools to help marketing and sales analysts examine data and find patterns and correlations that help them better anticipate and address customer needs (with the goal of strengthening each customer relationship).

LEARNING OBJECTIVES

- List the types of data stored in a customer database

For retailers, CRM systems store three primary categories of information:

1. Customer profiles
2. Customer activities
3. Customer management

Since CRM systems evolved from contact information applications from the 1960s and 1970s, customer profile data would include customer's names, contact information, birthdays, etc.

Customer activity would include purchase history data: what is being purchased, how much is being spent, and how frequently the customer is purchasing.

Customer management data allows the retailer to keep track of automated outreach programs, loyalty programs, and cross-marketing ties to other stores and sites.

One of the most powerful aspects of a CRM system is the analysis that can be generated leading to good business decisions. Having detailed information about individual customers and their activities is essential to being able to foster a deeper relationship with them. CRM systems can also aggregate customers into groups based on location, spend amount, and other factors so that retailers can measure overall impact of marketing activities.

In 2012 Mercedes Benz identified a major business objective to improve their overall customer experience. MB developed a CRM project aimed at customers in various stages of the relationship lifecycle. They created the "RFID Tap to Like" program for the Canadian auto show utilizing Facebook and RFID technology. At the auto show, attendees could interact with the exhibits by simply tapping to like selected vehicles. With this simple process, attendees would receive uploaded pictures and customized e-brochures of their favorites and MB would receive valuable customer information, including their preferences of the new auto models.

COLLECTING IDENTIFYING INFORMATION

LEARNING OBJECTIVES

- Identify how retailers collect identifying information

Retailers have collected identifying information since the business of retail was born. Before modern technology, retail proprietors would rely on their memory to know their frequent customers by name and use basic technology such as pen and paper to keep track of their clientele.

With the advent of Point-of-Sale technology (POS), retailers could more easily keep track of customers and their purchases. We have progressed rapidly from hand-written sales drafts to credit card imprints to credit card swipes. Today POS information can be collected from the consumers' use of smart phones to complete a transaction.

What's next? It is easy to see how Biometrics will be used to take the process further. Fingerprints are currently being used to authorize smart phone payments in Apple Pay. In Europe, Mastercard is promoting fingerprint, iris and facial recognition to verify identity in its Identity Check services. In China, DNA and blood type samples are being taken in the province of Xinjiang.

PRIVACY ISSUES

LEARNING OBJECTIVES

- Explain some of the privacy issues surrounding CRM tools

Retailers, among other businesses, push for greater customer service and transaction security through better information about their customers. CRM systems are becoming more sophisticated in order to handle the increased amount of data and provide management with better decision-making analysis. We can see that as retailers and their partners move to make retail transactions quick and easy–providing even more personal data for CRM systems–privacy issues are growing.

For brick and mortar, online, and hybrid retailers, a major privacy issue is protecting all of their customer data from malicious third parties. Data breaches have become all too common. Target Stores, eBay and TJX have all experienced massive data theft from hackers over the past several years. As this paragraph is being written, Saks and Lord & Taylor are reporting a data breach affecting 5 million customers.

Our personal information being stolen due to lack of database security is one thing, but how about our personal data being shared legally without our knowledge?

Many of us who shop online have noticed this phenomenon: we query a product or service on Google Search and then see that exact item showing up in an ad on Facebook or some other site we frequent. There is increased speculation that smart home applications such as Alexa and Siri have the ability to listen to our conversations for keywords in order to suggest products and services for sale on connected devices. As technology continues to develop and advance, privacy concerns are growing.

INTRODUCTION TO ANALYZING THE CUSTOMER DATABASE

What you'll learn: We will explore some of the techniques behind customer retention and customer loyalty programs. How does a retailer identify their best customers? What is market basket analysis and how does it help retailers tailor their product mix? How do retailers leverage their information systems to retain their best customers? What are the tactics used in a customer loyalty program?

IDENTIFYING BEST CUSTOMERS

LEARNING OBJECTIVES

- Explain how retailers use CRM to identify their best customers

[Need a graphic here]

We have seen how the development of powerful CRM systems can provide valuable information to retailers. The more any business knows about their customers, the better they can meet their needs. This is even more crucial for retailers as they must anticipate demand in advance and invest in goods prior to demand.

Using data analyzed from their CRM system, retailers can drill down to find their best customers. The definition of "best customers" may vary from company to company, but in general businesses look for purchase frequency, average purchase amount, lack of returns, response to survey requests, positive reviews on surveys, and posting positive opinions on social media. Further, retailers can learn even more about their best customers by engaging with them using "Relationship Marketing" techniques.

Relationship marketing is a facet of customer relationship management (CRM) that focuses on customer loyalty and long-term customer engagement rather than shorter-term goals like customer acquisition and individual sales.

One-to-one marketing is a CRM strategy where service is personalized for every customer in order to foster customer loyalty. One-to-one marketing has become even more prevalent with the increase in online shopping. Companies like Netflix, eBay, iTunes and Amazon record every single customer click and categorize every purchase in order to construct a detailed customer profile. With that data, these online retailers are able to construct individual marketing plans for each customer

GOALS OF DATA ANALYSIS

LEARNING OBJECTIVES

- Recognize the goals of market basket analysis, targeting promotions, and assortment planning

Market basket analysis gives clues as to what a customer might have bought if the idea had occurred or been suggested to them. Other terms used are "impulse purchasing' or "cross selling" to describe this consumer purchasing behavior.

The availability of detailed information on customer transactions has led to the development of techniques that automatically look for associations between items that are stored in the database. An example is data collected using bar-code scanners in supermarkets. Such 'market basket' databases consist of a large number of transaction records. Each record lists all items bought by a customer on a single purchase transaction. Managers would be interested to know if certain groups of items are consistently purchased together. They could use this data for store layouts to place items optimally with respect to each other, they could use such information for cross-selling, for promotions, for catalog design, and to identify customer segments based on buying patterns.

Market basket analysis can be used as a first step in deciding the location and promotion of goods inside a store or on a web page. If, as has been observed, purchasers of Barbie dolls are more likely to buy candy, then high-margin candy can be placed near to the Barbie doll display. Customers who would have bought candy online might be tempted with Barbie doll images popping up on web page margins. The infamous "would you like fries with that" phrase is an example of the association between products that market basket analysis can reveal.

The computational complexity involved in calculating the results of market basket analysis is a challenge met only with DW and data mining techniques. With data warehouses storing billions of transaction lines, so-called "big data" tools are needed to draw meaningful conclusions. Special techniques involving filtering or aggregating parts of the transaction database are commonly used to create performance algorithms to allow some level of interactivity, such as what-if queries and scenario creation in business intelligence applications.

Market basket analysis is a strong tool in the retailers' arsenal to increase sales using the latest data analysis techniques. Once out of reach, sifting through mountains of data to draw empirical conclusions can lead to effective assortment plans–determining the appropriate product mix–and promotional opportunities to cross-sell.

FREQUENT-SHOPPER AND REWARDS PROGRAMS

LEARNING OBJECTIVES

- Analyze the various tactics of frequent-shopper or rewards programs

Customer retention is crucial to the success of any business given the high cost of acquiring a customer in the first place. It is estimated that it costs a business 5-25X more to acquire a new customer than to sell to an existing one. Further, established customers are thought to spend 67% more than new customers.*

It's no wonder that savvy businesses have brought a variety of customer retention techniques together under the umbrella of formal "Frequent Shopper" or "Customer Loyalty" programs. As consumers, we all experience these techniques every day.

Some programs are based on simple point system–a purchase amount is equivalent to a number of points. Those points can then be accumulated and used as currency to make additional purchases.

A variant of this tactic, a so-called tiered reward program, is designed to foster longer-term loyalty. Airlines and car rental companies offer such programs and consumers move up the food chain by becoming Bronze, Silver and Gold members over time. With each designation, the customer receives more benefits and perks.

Another tactic is charging customers an annual fee in exchange for VIP treatment. Amazon Prime would be a good example of this type of customer loyalty program. "Prime" customers pay an annual $99 fee to participate in the program. As Amazon Prime members, customers receive free two-day shipping on millions of products with no minimum purchase required. According to the Consumer Intelligence Research, Prime members spend an average of $1,500 per year on Amazon.com, compared with $625 per year spent by Amazon customers who aren't Prime members.**

CUSTOMER RETENTION TECHNIQUES

LEARNING OBJECTIVES

- Identify some customer retention techniques based on collected data

Based on the CRM data of their customers, retail businesses use multiple techniques to encourage customer retention. We are all willing or unwilling participants in these activities on an everyday basis. Your morning email inbox is stuffed with news or offers regarding some sale or incentive from your favorite retailer. Your trip to the gas station may involve a reduced gasoline price based on your prior food shopping trip. When you pick up gardening supplies on your way home from work, you are asked for your rewards number and personalized discount coupons are then generated for future purchases.

Customer retention techniques can start simply with soliciting customer feedback after each interaction with the company to learn ways to improve the customer experience. Often, a customer purchase from a retailer is rewarded with an incentive to purchase again. As the retailer learns more about their customers' preferences, more communication can be initiated in the form of notifications of upcoming sales events, additional discount offers, cross-marketing campaigns involving related products, etc. This series of actions and responses is sometimes referred to as "High Touch" marketing.

Grocery retailer Kroger retains customers through a "preferred customer club". To join, customers must provide their contact information and in turn receive a membership card. With every purchase, customers swipe their card enabling Kroger to record and categorize every transaction. This allows the retailer to offer coupons and promotions for their favorite frequent purchases.

MODULE 8: RETAIL HUMAN RESOURCES

WHY IT MATTERS: RETAIL HUMAN RESOURCES

Human resources management and structuring a team are huge components of a successful business. As a retail establishment grows larger, these areas become even more relevant.

Making sure to stay current on all changes to employment laws can be a full time job. Creating proper documentation including job descriptions and personnel handbooks is a way to insure that expectations are known as soon as a new employee steps through the door.

This information can be a little less “fun” than some of the other topics in this course, but it is probably one of the most important modules. If your organization plans to grow and continue to add employees, these concepts are crucial to success.

INTRODUCTION TO ORGANIZATIONAL PATTERNS OF A RETAIL BUSINESS

Varying sizes of retail businesses utilize different organizational patterns and organizational charts. Each level of a business from executive to floor staff of a retail business need to have a job description, and clear outline of the duties.

From the smallest local store to national chains and diversified retailers, insuring clear job descriptions and hierarchy are imperative to an effectively running business.

ORGANIZATIONAL STRUCTURE AND EMPLOYEE TASKS

As with any business, the organizational structure of a retail chain will depend considerably on the type of store and its size. Retail stores generally have numerous types of employees who do a multitude of jobs. Starting at the top of a national chain's organizational structure a Chief Executive Officer (CEO), also sometimes called the President of the company, makes the major decisions for the business such as what wholesalers to buy from and where new stores should be built. "The role of the chief executive officer (CEO)… consists of planning, organizing, staffing, directing, coordinating, reporting, and budgeting is arguably the most important and influential in an organization"1

The next level of hierarchy in the organizational structure of retail, who report to the CEO, is management. In the management sector general manager, assistant manager and regional manager are a few of the types of management titles held within the retail organizational structure. "The top managers of an organization will develop social capital through a variety of personal relationships with their suppliers, customers, competitors, trade associations, government's political institutions and community organizations. This capital can then be used for the benefit of their organizations." 2

Organizational Structure Determines Employees Activities

The organizational structure of a retail store greatly determines what the daily activities and tasks that specific employees will perform. If the retail chain is for instance, a furniture store, then human resource personnel would want to hire warehouse workers who are physically fit enough to lift and move heavy or large merchandise. Although warehouse personnel's jobs characteristically have no set educational requirements they are an integral element of the structure of a retail business. "With the rise of e-commerce, while these "traditional" retail job numbers (cashiers, store clerks and stocking crews) are indeed shrinking, there is an accompanying rise in "non-traditional" retail jobs, like warehouse personnel and delivery drivers."3 While a warehouse employee would not be expected to file tax forms on behalf of the company or report on profit sharing, such as a CEO would, it is a vital sector of the organizational structure.

Other general titles which are interchangeably used within a retail setting are cashier and customer service representative. Cashiers, merchandising and floor personnel would need to be personable and capable of dealing with the general public as their jobs consist of conducting point of sale transactions and assisting costumers. Just as one would not expect a warehouse worker to perform the duties of a CEO, you would not expect a cashier to explain a personnel handbook to new employees as expected from the human resources division. A cashier's daily duties are to greet customers, operate cash registers, bag merchandise, use scanners/ scales and handle the types of transactions one would experience at a checkout counter such as returns, the loading of gift cards, etc. This requires accuracy and some basic math skills, for that reason, when hiring for cashiers these are characteristics a retail manager should look for in a prospective employee. Thus, retail managers rely on the organizational structure of their company to determine which employees will fit cohesively into each particular job position.

1. Meeks, M. D. (2015). STRATEGIC MANAGEMENT AND THE DISPARATE DUTIES OF THE CEO. Academy of Strategic Management Journal, 14(2), 93-116.
2. Nimble CEOs need social networks. (2013). Strategic Direction, 29(6), 12-14.

RETAILER STRUCTURES

As mentioned in the previous section of Module 8, the organizational structure of a retail business will greatly depend on the type of store and its size. Generally the logistics of a retail store are determined when a business plan is set into place. At the outset, retailers typically attempt to employ an organizational structure that is alluring to their consumers and the particular market they are attempting to sell to. The three types of retailers we will examine in this section are the single-store retailer, diversified retailer and national chains.

Single-Store

A single-store retailer has a smaller scale of organizational structure in comparison to national chains and diversified retailers. The typical structure for a single-store retailer may consist of the owner performing CEO and manager duties or even a cashier stocking merchandise because the inventory as well as the profit margins are smaller so there is significantly less need for these types of individual employees. “A small specialty shop may have all of its employees under one category called Store Operations. Even if you only have a small staff, everyone should be tasked with specific duties, so that things don’t fall through the cracks.”1

Many national chains and diversified retailers start out as single-store retailers. One such national chain was Wal-Mart. “On July 2, 1962, Sam Walton opened the first Wal-Mart store in Rogers, Arkansas. Sam’s competitors thought his idea that a successful business could be built around offering lower prices and great service would never work. As it turned out, the company’s success exceeded even Sam’s expectations.”2 Wal-Mart’s ultimate success provided for international expansion eventually leading to the single-store retail business becoming a national chain and even building stores in other countries such as Canada and Mexico.

Diversified

Diversified retailers provide products and/or services that are completely unrelated to what is being sold or offered in their other stores. Another way a retailer may become diversified is by acquiring another company or by merging with it. Acquiring or buying out other companies happens often in retail because it provides a means for eradicating competition. When one hears the name brand General Electric (GE) they might automatically think of kitchen appliances, but might not know that GE also produces medical devices such as ultrasound and x-ray equipment. 3

Because diversified retailers have such a broad range of specializations they have a more complex organizational structure in comparison to single-store retailers or national chains. For example, Disney conducts various types of commerce from theme parks and film production to retail stores. One of the primary roles of management in a diversified retail business is to delegate authority because there is such a huge range of operations in various sectors of the company being conducted daily.

National Chains

National chain retailers are largely competitive. For this reason, like diversified retailers, national chains tend to have an organizational structure intricate in comparison to a single-store retailer. “A large department store may have a complete staff consisting of a manager, assistant manager, and sales associates for its Sporting Goods multiple divisions with an array of personnel who are designated to do various jobs within the company. Regardless of what type of retail store you work for upper management should be detail oriented and capable of making quick and ethical decisions on behalf of their company.

1. https://www.thebalancesmb.com/retail-store-organization-2890447
2. https://corporate.walmart.com/our-story/our-history
3. http://www3.gehealthcare.com/en/products/categories/accessories_and_supplies

DIVISIONS OF A RETAIL BUSINESS

Larger stores, such as national chains, will have multiple sectors where daily operations are handled. Depending on the retail organization, the exact terminology for each division and title held by each individual employee may vary but are typically similar in nature from store to store. “Titles demonstrate the importance of the business functions, either internally or externally.”1 Executive, finance, operations and sales are integral parts of a large retail organizational structure. The executive level deals with preparation and planning. Finance would handle the bookkeeping and accounting aspects of the retail store. Sales, also called store operations, would be responsible for merchandising or customer service and regular procedures implemented within the store itself. Operations, also sometimes called regional operations consist of warehousing and transporting the merchandise.

Executive

As established in 8.1.1 the CEO (or president) of a large retail company is the primary decision maker for the company. As with larger businesses the CEO reports to the shareholders and is the company’s principal decision maker. “Quick thinking, an ability to react swiftly to changing circumstances, knowing what to do immediately when faced with a challenging situation. What company can afford to have a CEO who does not fit that description?”2 The executive division of a retail store will also consist of management and in the largest of companies’ corporate recruiters who are responsible for recruiting the top-level executives. These roles within a retail organization which handle planning and hiring are sometimes termed Central Operations.3

Finance

In many national chain and diversified retail markets the organizational structure may consist of a finance department. This department would house bookkeepers, accountants and sometimes tax attorneys who keep records of the financial dealings of a company. Accountants would record profit margins and losses as well as inventory costs. Tax attorneys would assist in financial planning, navigate complex tax codes and laws, handle disputes before the Internal Revenue Service (IRS) and oversee tax planning to legally minimize tax burdens.4 Bookkeepers would also do a variety of tasks including print checks and keep track of employees’ hours in order to pay them their wages.

Operations and Sales

Operations consist of warehouse and distribution. A Warehouse Operations Manager might be one of the titles you would find in this sector of a retail organization. Not only do these types of managers oversee the housing and transport of merchandise but they also make decisions with regard to planning such as which software best functions for their warehouse operations.5 Sales is another sector which deals with the day to day operations and

functions of a retail store. In larger retail stores a Corporate Sales Manager (CSM) heads this division of a retail organization. CSM’s oversee the sales force which works within a retail business. These types of managers would spend time on the sales floor as well as behind the scenes in the office of a store.

1. Lee, H., & Scott, C. J. (2015). Marketing or sales: The executive decision. The Journal of Business Strategy, 36(5), 43-49.
2. Meeks, M. D. (2015). STRATEGIC MANAGEMENT AND THE DISPARATE DUTIES OF THE CEO. Academy of Strategic Management Journal, 14(2), 93-116.
3. https://study.com/academy/lesson/retail-organizational-structure-management-personnel-training.html
4. Greenaway, T. D. (2015). Common threads and trends in tax. The Tax Lawyer, 68(2), 311- 320.
5. Faber, N., de Koster, M. B. M., & Smidts, A. (2013). Organizing warehouse management. International Journal of Operations & Production Management, 33(9), 1230-1256. doi:10.1108/IJOPM-12-2011-0471

INTRODUCTION TO HUMAN RESOURCE MANAGEMENT

Human resources is involved in every aspect of the employment process from creating the job descriptions, advertising for positions, interviewing, hiring and onboarding of new staff. Then they need to insure that all employment laws are followed and employees are well trained and feel part of the organizational culture.

HR professionals wear many hats in a day and the ever changing landscape of employment law keeps them in a constant state of learning, updating and improving. The human resources department of even the smallest retail business is important in helping secure the right employee to fill the right job!

PERFORMANCE MEASURES

The human resources (HR) division of a business organization handles the hiring and training of new employees and administrative duties regarding the company's staff. Some of the concepts human resource departments' use to measure performance is: productivity, employee engagement and turnover. HR maintains records and conducts regular assessments of these performance measures for various reasons including employee satisfaction and keeping production high.

Productivity

Retail productivity is the rate at which commerce is being initiated by a business. HR management measures productivity in order to determine competitiveness against other comparable retailers. Retail stores, as with most modern-day businesses, are always evolving therefore; evaluating productivity is an important component in determining what works for the company as a whole. High productivity can lead to expansion of a retail company and have influence over other components of an organization. Productivity is one of the most important factors in determining progress within the retail market.

Engagement

Employee engagement is the relationship employees have with their retail store and their particular job within the business. High employee engagement has a direct correlation to high levels of work productivity and loyalty to their retail business. If an employee is exhibiting a high level of engagement with their company, employee morale tends to be elevated. Many companies have come to rely on HR for organizing activities for their retail businesses in order to keep engagement levels high. This may come in the form of organizing social events or specialized training sessions. "Executives from around the world say that enhancing employee engagement is one of their top five global business strategies. Not only does engagement have the potential to significantly affect employee retention, productivity and loyalty, it is also a key link to customer satisfaction, company reputation and overall stakeholder value"1

Turnover

Turnover in the human resources sector is the rate to which employees depart a company. Human resource management may measure performance by the increase or decrease of turnover within a retail organization. Turnover is typically recognized as a negative connotation in most businesses because of the cost it takes to train new employees as replacements for the employees who leave. In some instances turnover's drawbacks can be gauged against its benefits.

"Organizations confront uncertain costs and benefits: the cost of operational disruption and replacement… versus the benefits of lower cost labor or of fresh skills with which to compete on innovation." 2 Nevertheless, a good HR management team will make every ethical attempt as allowed by law to keep their turnover rates low. One of the tools HR management might use for this would be an exit interview in which an employee discusses their experience with the company and what lead to them leaving the business. This gives the individual employee the opportunity to develop a sense of closure and gives HR an understanding of what escalated to them quitting. Whether the scenario entails an employee leaving a retail organization because they are unhappy at their job, or if it is simply to go on to another place of business totally unrelated to retail, one of the duties of a good HR management team is to keep track of these incidences and to investigate what caused the departure.

1. https://www.shrm.org/resourcesandtools/tools-and-samples/toolkits/pages/sustainingemployeeengagement.aspx
2. BATT, R., & COLVIN, A. (2011). AN EMPLOYMENT SYSTEMS APPROACH TO TURNOVER: HUMAN RESOURCES PRACTICES, QUITS, DISMISSALS, AND PERFORMANCE. The Academy of Management Journal, 54(4), 695-717. http://www.jstor.org/stable/23045107

STEPS OF HUMAN RESOURCE MANAGEMENT

Human resource management must take various steps in order to properly execute their jobs in building a productive workforce for their retail business. A new employee would witness HR from the outset recruiting new employees and then hiring them. As a new employee goes through the processes of their particular job within their retail company they would expect to be properly trained, supervised and then compensated for their work. Some of the more modern methods of recruitment for HR teams consist of using social media to get the word out about vacancies within a retail company. Websites like LinkedIn and Facebook are excellent tools for the creation and circulation of job postings. Other methods include online postings with websites such as Indeed and Monster.

Online recruitment is not necessarily inclusive for finding new hires. Another approach would be to conduct a hiring seminar or job fair which provides the potential new recruits face-to-face interaction and a more personal experience. Once a new employee has been recruited, the HR team will interview and then hire the prospective employees they believe would be the best fit within their retail team. During the interviewing and hiring process it is important for the HR manager to accommodate the qualified candidates and provide them with a positive hiring experience. This will make for a cohesive transition into the company and can reduce possible turnover in the future.

Training and Supervision

The next step for HR management once new-hires have been established and begin their experience within the retail market, would be to ensure their employees are properly trained so that they may perform their jobs capably. New-hires and newly promoted candidates will need some form of training to perform their jobs and in some instances to develop their performance and productivity. The first step for HR would be to establish what type of training each individual employee might need. Orientation, on-the-job training and programmed instruction are types of training which might be conducted in a retail setting. HR oversees what needs there are for training by ensuring each individual employee receives that particular training (whether it is in the form of on-the-job training, attending sessions or classes or ascertaining certifications for their particular job). Once a candidate is hired or newly-promoted, they would expect some form of supervision while working so that there is some element of critical learning. HR should establish an appropriate balance of supervision at the outset so as to ensure proper performance but also to have a positive effect on job satisfaction.

Compensate

Once an employee is hired and trained HR's job is not over. They must continually constitute determining factors for employees. One such factor HR deals with is compensation. In most cases in retail organizations, part time employees are paid hourly and are typically not offered the same benefits that full time employees are eligible. "Compensation and benefits comprise the total rewards package that an employee receives for performing a job. Compensation is considered direct pay, since it is the amount of money the employee receives. Benefits are indirect pay, since they are monetary equivalents that can be converted later into cash or used to pay for selected expenses."1 HR management teams will determine at the outset what each individual employee will be paid and communicate that directly with bookkeepers and payroll in order to ensure employees receive the correct compensation and benefits to which they are entitled.

1. Abbott, J. B. (2011). Compensation and Benefits. In W. D. Folsom (Ed.), Facts on File Library of American History. Encyclopedia of American Business, Rev. ed. (Vol. 1, pp. 128-129). New York: Facts on File.

CHALLENGES IN HUMAN RESOURCE MANAGEMENT

Regardless of the size or type of retail store one is managing, human resource management will face unique challenges that are exclusive to their division of the organizational structure. Besides just turnover being a challenge, HR might face some other issues such as organizational change, compliance with laws and liability issues, and employee development duties such as determining qualified candidates and employees passing background requirements.

Organizational Change

Retail organizations must continuously improve and change in order to keep up with their competition. As with any division of a retail business HR management should plan for the long-term and implement strategies which are conducive with the evolving times. “To succeed in the market, organizations need to develop strategies and organizational practices that allow them to be truly ambidextrous—to pursue both incremental and radical change—on all platforms”1 For HR teams, change can sometimes lead to lower morale, employee engagement and productivity. Thus, transformation must be balanced delicately for the benefit of the company’s employees. One of the solutions for HR management is to regularly communicate the positive aspects of these changes to their workforce. By applying the benefits of change within training exercises and holding frequently detailed meetings, HR can help to give employees a better understanding of why change can be advantageous and give the retail store’s personnel an explanation of what is expected of them.

Liability and Compliance with Laws

One of the other components of HR management that is ever-changing is employment laws. Ignoring changing employment laws can mean liability on behalf of a retail company. This could lead to lawsuits, poor corporate image or even the downfall of a retail business. Regardless of the type or size of a retail organization HR must make compliance with labor laws on every level a priority. One of the tools HR management can use to circumvent liability issues with their employees is a personnel handbook which is typically given to an employee at the outset of their employment. “Personnel handbooks can be considered contracts… policy, procedure and administrative manuals, can also be considered contracts.”2 HR management might practice the usage of broad terminology in clauses for such manuals for instance “other inappropriate behavior” or “for any reason as deemed by management” in order to reduce future liability issues with their employees. Some of the pertinent laws to which HR should stay abreast of are equal employment opportunity laws, health and safety laws and sexual harassment laws, all of which will be further addressed later in Module 8.

Employee Development

Regular human resource administrative duties include recruitment and training of new employees and keeping up to date on development for current employees. One of the issues faced by HR at the outset when hiring a new employee could be that a chosen candidate may not make it past the background requirements. In this case HR will likely have to start from scratch in the recruitment process again. Development of current employees might consist of keeping up on certifications or training courses for promotional candidates. Training can be costly and time consuming. In order to provide the proper balance HR might consider using training which can be provided online or even enlisting senior management to provide instruction and guidance.

1. Järventie-Thesleff, R., Moisander, J., & Villi, M. (2014). The Strategic Challenge of Continuous Change in Multi-Platform Media Organizations—A Strategy-as-Practice Perspective. JMM: The International Journal On Media Management, 16(3/4), 123-138. doi:10.1080/14241277.2014.919920
2. Shaughnessy, Mary Angela, SCN,J.D., PhD. (2016, Spring). Legal issues in human resources management. Momentum, 47, 48-51,13

INTRODUCTION TO ATTRACTING THE BEST EMPLOYEES

In a good economy with low unemployment, the challenge of finding the best employees becomes even more important. Retail has been a historically low-paying industry, so attracting great talent may involve non-monetary incentives such as great work hours, an inviting company culture or other creative perks.

Defining clearly what is needed for a particular position, then recruiting, interviewing and hiring, is another task of the human resources department. HR will work with department managers to clearly outline the skill set required for each position.

RECRUITING TALENT

Recruiting new employees is a preliminary step HR management teams must take in order to properly build a retail organization’s workforce. There are various factors to consider when recruiting new employees for retail work, one of which is ensuring that highly-qualified candidates are enlisted for the existing openings. Finding talented candidates for jobs within a retail organization can be competitive because other retailers who have vacancies may have larger budgets to attract the same aspiring job-seekers. Other sectors, such as manufacturing, may have openings with more attractive hours (no nights and weekends), and better hourly pay. Getting the word spread about job openings before the competition, and with a clear outline about the clean, cool and fun retail work environment is essential in recruiting a competent staff.

Job Description

One way HR management teams can draw in potential candidates for recruitment is by writing a job description that stands out from the company’s competitors. The first impression that potential new employees will have of a retail company’s hiring practices is likely from reading the job description. One strategy for HR management when writing job descriptions is to make them appealing to everyone. “When writing the job description, jettison anything that may be filtering out quality people — examples might include rigorous expectations of number of years of experience, coming from a set of high-profile universities, or studying a certain curriculum that may not have been available.”1 It should be a priority that HR attracts quality candidates and not just candidates that fit in with the rest of the retail store’s workforce. Another strategy HR may use when executing a job description is to provide an explanation of why the retail store is hiring candidates for that particular position. Using phrases such as “to improve customer relations” may provide an allure for job-seekers because it presents the applicant with a goal and not just working towards the company’s bottom-line. The overall objective of HR when composing a job description is to find suitable candidates for the retail store’s workforce. If a job description clearly identifies what the candidate will be doing at the outset, there are no questions about what specifically the job-seekers responsibilities are once they are hired. If HR is unclear about what the newly hired employee will be doing then “many managers make mistake after mistake, hiring the wrong person again and again.”2

Recruitment Processes

With the modernizations of social media, spreading the word that a retail business is hiring can go much faster now than it did fifteen years ago. Websites and apps like LinkedIn provide HR with the ability to seek out individuals who are qualified and notify them when a job is open within that retail store. Creating job postings on social media or on the company's website is another way to get the word out about a job opening via the internet. Choosing the proper forum for reaching potential candidates is essential in finding suitable applicants. “Of course, the Internet has become the leading venue for posting job openings, but don't overlook targeted industry publications and local newspapers.”3

If there are not enough qualified applicants putting in for a particular job, some companies resort to temp agencies. This means of recruitment allows for retail organizations to try out potential candidates at minimal risk because they are only obligated to work for a provisional amount of time. If a temporary employee is not working out, HR can choose not to ask them to return once their temporarily designated period of employment is over. Other methods of recruitment can be to conduct a hiring seminar at the retail store itself or HR might consider attending a local job fair.

1. https://www.forbes.com/sites/maynardwebb/2017/10/29/how-to-alter-your-hiring-practices-to-increase-diversity/#344484282029
2. Tracy, B. (2016). Hiring and firing.
3. https://www.entrepreneur.com/article/76182

DEVELOPING STAR EMPLOYEES

The selection of a new employee consists of steps for HR managers involved in the hiring process. Managers of a particular department will ultimately have the final say in who is hired for their opening "but the role of human resource management is to define and guide managers in this process."1 After the initial issuance of a job vacancy posting and recruitment process, retail managers will begin the process of selecting an employee or employees for the vacant positions within their retail store to which they wish to interview. "Proper selection of personnel constitutes a frequent challenge for the management of many enterprises."2 Selection and training techniques used to develop qualified candidates will assist HR management with this process.

Assessment

Once HR has accumulated enough resumes they will review them and assess who the best candidates are for selection. Interviewing and test administering are preliminary steps in the assessment process. Prior to the face-to-face interview, an assessment of screening questions can be conducted via phone or email. Having a list of basic screening questions to ask gives HR the ability to make determining factors about a candidate's skills prior to spending the valuable time which is required to interview them. This can potentially reduce the list of candidates who meet the minimal requirements which makes the scope of the interviewing process less complicated.

Testing potential new-hires might be one of the evaluations HR could require. Numerous types of testing can be conducted when determining a candidate's qualifications. Some of the types of tests used in a retail environment for assessment are universal tests that all applicants must take such as drug tests. Other types of tests conducted can be exclusive to the particular job position a candidate is applying for.

GMetrix is one type of software used by HR management when testing potential administrative applicants. For jobs such as warehouse personnel there may be a physical requirement to which HR management may perform testing. Depending on the sensitive nature and responsibilities of the position, background and credit checks are also a means of measuring if a potential individual is a fit for a particular retail position.

Onboarding

Once a prospective employee has been recruited and HR has made the decision to hire them, the process of onboarding begins. Onboarding is the transition new employees make into an organization. For HR management this may consist of an array of exercises from extending an offer of employment and defining compensation and benefits, to an initial welcoming and new employee orientation. "The content of onboarding should align with the interests and learning objectives of the participants. Consider not only whether the activities associated with the new hire acclimation process adequately prepare new employees to be productive and engaged, but also whether the delivery method complements the learning mode of the people hired." 1 Providing a positive onboarding experience that properly prepares new talent and outlines job expectations can prevent retail companies from having high turnover rates. When employees are left to figure out procedures and goals on their own productivity takes more time which costs the retail store more money.

1. http://open.lib.umn.edu/humanresourcemanagement/chapter/5-1-the-selection-process/
2. Klosowski, G., Gola, A., & Swic, A. (2015). Human resource selection for manufacturing system using petri nets. Applied Mechanics and Materials, 791, 132. doi:10.4028/www.scientific.net/AMM.791.132
3. Stephenson, J. (2015). Improve your employee onboarding process with seven storytelling tips. The Journal for Quality and Participation, 38(3), 26-29.

MOTIVATING EMPLOYEES

Productivity is a great measuring tool for retail managers when evaluating how well their workforce is performing. But how does a retail organization motivate its employees to keep productivity levels functioning at maximum capacity? As with any business the nature of incentives, motivational techniques and methods will vary depending on the type and size of store and even which division is being managed. For instance, what works to motivate sales employees might not be applicable in the warehouse division of a retail organization. Some of the general types of motivational techniques for management include being supportive, giving employees room to grow and listening to your retail personnel. Being a leader takes developing charisma and exhibiting encouragement. Successful leaders encourage their employees to exceed normal everyday obligations. “Charismatic leaders communicate missions and visions as distal goals and socially desirable outcomes thereby instilling faith and a better future.”1

Communication

Even if a retail manager is not comfortable with public speaking it is important to clearly and decisively communicate with your staff. Holding regular meetings to update employees on sales goals, changing procedures and informing on individual performance is one such method a retail manager can utilize to motivate their employees. This type of communication makes employees feel important. Establishing a mission statement is another communicative motivational technique retail companies can do to inspire their employees and further productivity. A mission statement sets a clear purpose and vision for the company as a whole.

Leadership Styles

Key leadership styles practiced by managers are laissez-faire, autocratic and democratic. Laissez-faire is a leadership style in which a leader does not make decisions at all. Autocratic leaders make decisions for an organization based off of rules and regulations and rarely gather input from anyone else. Democratic leaders garner insight from their co-workers and subordinates when making a decision. Autocratic leadership styles may work best in the manufacturing and distribution region of a retail organization for safety reasons. This is because there may be little margin for error so some decisions must be made immediately on the spot with no time for discussion. Democratic leadership is the type of leadership style to which most modern day business leaders tend to practice. “People play an important part in business success. By including employees in business decisions companies will further develop their organizations and implement a culture of fairness.”2 This type of leadership style would have a motivational impact especially in a sales division of a retail store.

Incentives and Bonuses

Principal motivations for employees can consist of incentives and rewards. Some monetary forms of rewards are bonuses, commissions and profit-sharing. Other ways to keep retail personnel motivated might be for the company to pay for additional certifications or schooling. Many organizations might also host picnics or dinners for their most productive stores as an incentive for hard work. If your retail store’s employees know that they will be rewarded they are more likely to perform productively.

1. Gebert, D., Heinitz, K. & Buengler, C. (2016). Leaders’ charismatic leadership and followers’ commitment. Leadership Quarterly, 27(1), p. 98.
2.
3. Porter, S. (2014). Building business success: A case study of small business coaching. Industrial and Commercial Training, 32(7), 241-244.

DIVERSE AND INCLUSIVE WORKFORCE

Understanding and responding to changing societal expectations is necessary when running a retail organization. When HR management sets out to build their workforce it is important to practice good corporate social responsibility. "Corporate social responsibility is the responsibility of an organization for the impacts of its decisions and activities on society through transparent and ethical behavior."1 Now more than ever, today's society takes notice when a company's hiring practices include the hiring of diverse employees.

In order to build a diverse workforce for a retail organization it is imperative that HR management writes an initial job posting that does not use language which is discriminatory or offensive. This will limit your potential candidate pool and possibly scare off candidates from diverse backgrounds. "Remove subconscious biases from the hiring process. Write a job spec making sure it doesn't only appeal to one group of people, such as men. Think about the words you use. "Dominant" and "competitive" are seen as positive traits for men, but as negative attributes for women."2 This carries over into the interviewing and assessment process as well. Retail businesses have an obligation to offer all individual employees a work atmosphere where everyone can contribute and succeed. Therefore, hiring regardless of gender, disability, race or religious background is beneficial for retail companies.

Benefits of an Inclusive and Diverse Workforce

Retail companies are obligated to follow the laws governing labor and management relations. One such act is the Civil Rights Act of 1967. Title VII of this act prohibits employers from discriminatory actions when building and developing their workforce. The passing of this act eventually lead to the implementation of another act called the Equal Employment Opportunity Act (EEOA) passed by Congress which will be addressed further in Module 8. Retail stores are obligated to follow the laws against bias as set forth by statute in order to avoid costly claims and lawsuits filed against them.

Corporate citizenship is a term used to describe how a company exercises its overall obligations and corporate social responsibility. For retail stores to build a positive corporate citizenship they need to go past just complying with laws and regulations, they should also be aware of what society anticipates from them. "Diversity and inclusion is all about creating shared values by working together for a common mission… the members of tomorrow's workforce are ready to be more purpose-driven than their predecessors, and it is for the companies to harness their positive and creative energy into executable actions"3

Beyond the benefit of hiring a diverse workforce just because it is morally and ethically the right thing to do, there are other benefits as well. Employees with disabilities have higher retention rates.4 This means that they are more likely to continue their employment with a company even after having had a significant amount of time to build work experience. Having higher retention rates leads to having reduced turnover rates.

Being socially responsible and building positive corporate citizenship drives profitability for a retail organization. Comprising a diverse and inclusive retail workforce promotes a sense of belonging which will draw in customers of all backgrounds. Diversity within a retail company also promotes innovation. Employees feeling that they are

valued regardless of their differences will initiate increased productivity and employee engagement. This sentiment drives progress and growth for a retail store.

1. Ishak, S., & Mohamad Naimi Mohamad Nor. (2017). Corporate social responsibility. SHS Web of Conferences, 34
2. https://www.forbes.com/sites/maynardwebb/2017/10/29/how-to-alter-your-hiring-practices-to-increase-diversity/#344484282029
3. https://www.forbes.com/sites/forbeshumanresourcescouncil/2018/05/09/diversity-and-inclusion-matters-to-the-workforce-of-the-future/#6891003c771b
4. https://www.dol.gov/odep/topics/ChangingAttitudes.htm

INTRODUCTION TO LEGAL ISSUES IN HUMAN RESOURCE MANAGEMENT

As modern day society moves forward many new legal issues arise that would never before have been anticipated. This is true within any realm of business but most considerably retail management. The best way to manage potential liability concerns is to avoid having to defend a lawsuit altogether. By communicating up front to new employees with the implementation of a personnel handbook, human resource managers can attempt to circumvent inappropriate or unethical behavior from their staff members. Personnel handbooks are a resourceful tool for human resource managers and should be treated as a valuable guide for new employees. Some other tools and methods for dealing with legal issues in retail management will be examined throughout the remainder of Module 8.

LAWS VS. ETHICS

Ethics are a set of moral values an individual establishes for one's self and their own personal behavior. Laws are structured rules utilized to govern all of society. Not only do retail companies have an obligation to act ethically but so do the professional individuals working there. Within the hierarchy of retail companies, managers often interact with individual employees who are subject to "professional" codes of conduct. These codes of conduct may vary depending on the employee and their position within the company. For example the American Bar Association has set forth Model Rules of Professional Conduct for licensed attorneys, that were put into place in order to influence what behavior is to be expected when working in that particular profession.1 Therefore, an attorney working for a retail company might be held to a higher ethical standard than that of a clerk working in a stockroom. Nonetheless, both have to follow the laws as set forth by their state and local governments.

As times progress so do ethical and moral standards within the retail environment. Advancements with the internet have brought about websites where employees can report unethical behavior within a company. Ethicspoint is one such internet reporting site where one can go online anonymously and report violations by entering the name of the organization, the violation category which best describes the unethical behavior and after agreeing to the websites terms and conditions, one can file a report.2 These types of reporting methods are helpful with issues like health and safety violations, sexual harassment claims and discrimination which will be addressed further in the next few subsections of Module 8.

Some retailers have prided themselves on their ethical practices and procedures and even promote them publicly to improve their corporate image. For instance, a retailer's number one concern might not be to have an ethical obligation to the environment but if they use and sell only environmental friendly products within their company and advertise as such this may assist in improving their image. "The economic crisis and its consequences represent an unparalleled opportunity for retailers to develop ethical practices and social policies for the good of society and their companies. Studies indicate a positive link between ethical perceptions and consumer responses, in terms of trust."

1. https://www.americanbar.org/groups/professional_responsibility/publications/model_rules_of_professional_conduct/model_rules_of_professional_conduct_table_of_contents.html
2. https://secure.ethicspoint.com/domain/en/default_reporter.asp
3. Diallo, M. F., & Lambey-Checchin, C. (2017). Consumers' perceptions of retail business ethics and loyalty to the retailer: The moderating role of social discount practices. Journal of Business Ethics, 141(3), 435-449. https://btp.press.vgtu.lt/articles.php?id=23014

EQUAL EMPLOYMENT OPPORTUNITY LAW

Retail managers and human resource management within a retail company are most likely familiar with or at some time become aware of the Equal Employment Opportunity Act (EEOA) as implemented by Congress1. This act is an amendment to the Civil Rights Act of 1964 which prohibits discrimination based on color, race, religion,

national origin and gender. Congress further added to this act by passing the Age Discrimination in Employment Act of 1967 which also prohibits discrimination based on age and concentrating on the protection of individual employees ages 40 to 65 years of age.2 Another act implemented by Congress was the Americans with Disabilities Act of 1990 which requires employers to make reasonable accommodations to disabled individuals.

A regulatory administrative agency governing the enforcement of the EEOA was established by the federal government. This agency is called the Equal Employment Opportunity Commission (EEOC).3 The EEOC has the power to seek statutory remedies for individuals whose rights as set forth by the EEOA have been egregiously violated. These remedies can include but are not limited to punitive and compensatory damages and back-pay (depending on the case). However, the EEOC is not an answer or remedy necessarily for everyone who feels that they have became a victim of prejudice in the workplace as they typically only file suit in less than one percent of charges per year.4

If an employee feels that they have been discriminated against and moves forward with filing suit, the burden of proof relies on the plaintiff and he or she must build a “prima facie” case of discrimination. This means that the plaintiff must prove the employers discriminatory motive as prohibited by the EEOA. For example, written proof in the form of email or text explaining to the employee that they did not receive a promotion solely based off of the fact that they are a woman or a minority could be considered proof enough for the EEOC to pick up the suit. Typically the EEOC establishes proving discrimination based off of the treatment the employee received, the impact it had on them and/or if there was harassment involved. Harassment is another way to prove discrimination. In this instance it is a bit more complicated to build a “prima facie” case against a potential violator of this type of discrimination which will be addressed further is section 8.4.4.

For an employee to prove discrimination as defined by the EEOC the individual employee (or alleged victim in this instance) must be capable of establishing that “he or she was treated differently than other employees who were similarly situated, and that the difference was based on a protected characteristic.”5 The EEOC has various types of reporting forms which are used and kept as record if a case is filed against a company for discrimination. Filing a charge against an employer would require an individual employee to sign a sworn statement naming the offender and detailing the discriminatory offense. Once the EEOC has received a complaint of discrimination the business organization being accused will be notified and given the opportunity to rectify the situation.

In the case of discrimination retail organizations who have over a certain number of employees must comply. For this reason some of these laws may not apply to single-store retailers or retailers with a smaller organizational structure. Regardless of the size or type of retail store, management’s daily operations when dealing with subordinates such as hiring, firing, promotions and raises should be carried out in the most ethical manner.

1. https://www.law.cornell.edu/wex/equal_employment_opportunity_commission
2. https://www.dol.gov/general/topic/discrimination/agedisc
3. https://www.eeoc.gov/employees/charge.cfm
4. https://www.eeoc.gov/eeoc/statistics/enforcement/index.cfm
5. https://www.nolo.com/legal-encyclopedia/disparate-treatment-discrimination.html

EMPLOYEE HEALTH AND SAFETY LAWS

The previous topics discussed in the subsections of Module 8 cover a multitude of concerns when managing a retail store but what about health and safety? This is an important topic of concern when managing a retail store

because any retail manager will be required to ensure that a safe work environment is provided for their employees to work in. One of the reasons health and safety is so important for retail managers is that current and future employees alike would not want to work in or for your retail store if a company is known for unsafe work conditions. As with the previous topics of equal employment opportunities for all and expected ethical behavior, there are laws as set forth by the federal government to which a retail manager must follow.

The Occupational Safety and Health Act (OSH Act) of 1970 was passed by United States Congress in order to ensure the safety, health and wellbeing of employees as well as workplace safety. "The goal was to make sure employers provide their workers a place of employment free from recognized hazards to safety and health, such as exposure to toxic chemicals, excessive noise levels, mechanical dangers, heat or cold stress, or unsanitary conditions." 1 Retail managers should be familiar with this law so that they can ensure their stores do not have hazardous conditions which might cause injury or serious health risks to their employees. It is no secret that modern-day employees have concerns about safe work environments. This is evidenced by the fact that jobs which might be considered more dangerous have a harder time finding potential employees to fill their positions.

The adoption of the OSH Act in 1970 gave rise to three agencies which work to verify that the standards of the act are achieved by retail companies and their management teams. The Occupational Safety and Health Administration (OSHA), the Occupational Safety and Health Review Commission (OSHRC) and the National Institute for Occupational Safety and Health (NIOSH) are the regulatory agencies to which retailers must meet these standards.2 Impromptu inspections that may come as a surprise to the retail manager are one of the methods these agencies utilize when enforcing the standards as set forth in the OSH Act. If a retail store is in violation the agency has the right to impose fines against the company (or in some cases even file criminal charges) which can be costly for the organization as a whole and could also cause potential problems for the manager's career with the company and background overall.

A retail manager, especially working in a large retail chain, might expect multiple inspections from OSHA without warning at any given time. When this happens the routine might become familiar to the retail manager but if the manager is unaware or newly promoted they would expect OSHA to present their credentials, request to see any pertinent paperwork with regard to the company and its health and safety procedures, and then inspect the premises. If it becomes apparent to the OSHA compliance inspector that there are violations present, citations may be issued depending on the severity of the offense and if there are repeat offenses jail time could be imposed.

References

1. https://www.epa.gov/laws-regulations/summary-occupational-safety-and-health-act
2. https://www.oshrc.gov/FAQ/

SEXUAL HARASSMENT LAWS

The issue of harassment was briefly touched on in section 8.4.2 with regard to discrimination but what about sexual harassment specifically? The EEOC defines sexual harassment as "unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature." 1 The judicial system within the United States has set guidelines in determining whether or not sexual harassment in the workplace has occurred. One such instance of sexual harassment is when an authority figure or manager makes sexual

advances to a subordinate with the promise of a job or promotion. This is termed as quid pro quo. Another form of sexual harassment could include a hostile work environment. These types of harassment within a retail business could be detrimental to a company's public image.

More recently sexual harassment has made headlines with some high profile cases as a means of proving discrimination. One such case was that of Fox News. The news station was disrupted by multiple reprehensible reports of sexual harassment within the workplace which caused the departure of some of its more popular anchors and top executives. These particular cases also brought to light the flaws with the laws governing sexual harassment cases. More specifically "women are forced to report harassment nearly immediately, despite the many career-related reasons not to, and yet they are not fully protected against retaliation when they do report the harassment. Scholars have also documented that if a victim's claims do make it to court, the standard for proving harassment is a nearly insurmountable burden to overcome. These identified weaknesses in the law would seem to explain why the law failed to act as a stronger deterrent to Fox News." 2

The Fox News scandal paved the way for a new movement called "MeToo." Between numerous news reporting agencies and multiple Hollywood producers, actors and television figures, this movement caught on fast and was extremely publicized in the media costing various high profile on-air personalities their jobs and ultimately tarnishing their careers forever. As stated previously at the beginning of Module 8.4, the best way for retail companies to manage potential liability altogether is with the avoidance of a lawsuit by addressing sexual harassment promptly. When notified of sexual harassment a retail manager may find that there could be various remedies.

Modifying schedules, moving individual employees away from other employees or having to dismiss an employee altogether could be potential remedies for subordinates committing possible sexual harassment violations against another employee(s). "Companies need to foster an environment where there's no room for sexual harassment to take hold. That starts with building a culture based on collaboration, teamwork, and respect and not tolerating employees who dominate or treat other employees as if they are there to serve them. Leaders sometimes inadvertently send the wrong message by excusing or even rewarding employees for behaving aggressively toward colleagues."

1. https://www.eeoc.gov/laws/types/sexual_harassment.cfm
2. Edwards, M. (2018). The big crowd and the small enterprise: Intracorporate disputes in the close-but-crowdfunded firm. Penn State Law Review 122(2), 411-462.

www.pennstatelawreview.org/wp-content/uploads/2018/03/Edwards-final-print.pdf

3. https://www.forbes.com/sites/hbsworkingknowledge/2018/04/11/sexual-harassment-what-employers-should-do-about-metoo/#7898f3b62acb

WEB RETAILING LAWS

Brick and mortar stores have been a primary source of sales for retailers for centuries. With technological advances in computers and the internet many retailers have turned to conducting business online in order to expand their sales. Online sales also provide the opportunity for consumers who might not otherwise have the means to physically go into a retail store to purchase products or who may live outside the retail stores physical

location. Around the time of the new millennium the federal government began to recognize that there was a need for laws governing these types of transactions. The Uniform Commercial Code (UCC) has been the statutory law which governs the sale and/or lease of goods and contracts for the same. 1 The UCC decidedly began implementing laws which regulated online retail sales after it became apparent in the 1990's that e-commerce was here to stay.

E-contracts for the sale of goods are covered in Article 2 of the UCC's guidelines. An agreement online is typically made by checking a box agreeing to the terms of a contract or acceptance of an offer. In July of 1999 a new act was created called the Uniform Computer Information Transaction Act (UCITA). This act is used as a guideline for licensure of computer information exclusively and is most pertinent if the retailer you are working for sells computer software.2 Electronic signatures are also a means of conducting business transactions online. Electronic signatures were confirmed as a means of carrying out the sale or lease of goods and services online in 2000 under the Clinton administration when the Electronic Signatures in Global and National Commerce Act was approved by Congress.3 Other laws retail managers should be familiar with when selling retail goods online have to do with international purchases. The United Nations has been beneficial with attempting to provide an outline for countries that are in agreement of their International Sale of Goods trade laws. 4

Retail managers should become familiar with these laws as retail sales over the internet increase. While shopping in retail stores is still where the majority of sales are made for retailers shopping via the internet has grown significantly in recent years. "Researchers predicted a 15 percent growth in U.S. sales and total value for online shopping between 2016 and 2017, while offline only saw a 4.5 percent increase. There are almost as many people who prefer to shop in stores rather than online — with 51 percent of Americans preferring ecommerce, and 49 percent preferring heading into an actual store. However, a larger portion of millennials (67 percent) prefer shopping online over offline." 5

1. https://www.law.cornell.edu/ucc
2. https://ethics.csc.ncsu.edu/intellectual/licensing/ucita/study.php
3. https://rightsignature.com/legality/e-sign-act
4. scholarship.law.duke.edu/cgi/viewcontent.cgi?article=3058&context=lcp
5. https://www.entrepreneur.com/article/306678

PUTTING IT TOGETHER: RETAIL HUMAN RESOURCES

So the structure of the staff from the CEO or president to the cashiers, stockers and maintenance staff are all important and necessary components of a well run retail business. Whether you are managing a single store or are part of a larger national chain store, similar tasks need to be completed on different scales.

Human resources needs to manage all of these positions, job descriptions and employment related details to make sure all of the laws regarding employment are properly followed. Securing a quality workforce is a challenge in this economic environment, with low unemployment. Employers need to be diligent in securing qualified staff, and then providing the support, training and resources to keep them.

This module is one of the most important in the entire course! Once you pick your location (from module 6) and set up shop, your staff will make your business run!

MODULE 9: FINANCIAL STRATEGIES IN RETAIL

WHY IT MATTERS: FINANCIAL STRATEGIES IN RETAIL

In Module 3, you learned about distribution channels, the ways that products or services get to the end user and all the activities that bridge the producers with consumers, including:

- Logistics: assembly, warehousing, sorting, and transportation
- Facilitation: channel coordination, marketing, promotion, financing, and post-purchase service and maintenance
- Transaction: buying, selling, and the associated assumption of risk

These activities support the exchange of goods, transferring products and services to the consumer and transferring payments back to the producer. But, some producers leverage intermediaries, like wholesalers and retailers, for facilitation and transaction activities.

This indirect channel is a very familiar because it's what we most frequently associate with retail, especially in the grocery industry. We understand that while the inclusion of intermediaries does add some complexity, it has two critical benefits.

First, this channel arrangement allows for the individual actors, producers, and intermediaries, to specialize, thereby increasing efficiency and reducing costs. Further, because of the exchanges throughout the marketing channel, risk is managed and mitigated. A producer does not own the entirety of their inventory as they try to sell products to individual consumers. Instead, they sell part of the inventory to a collection of wholesalers and retailers who undertake some risk and ultimately market the product to consumers. These wholesalers and retailers will realize greater revenue for the same product compared to the producer, but this is an appropriate offset for the risk of holding inventory.

How do the wholesalers and retailers realize greater revenue for the same product? And, why is it necessary to have an offset for the risk of holding inventory? Does this make sense?

Let's start with the first question, "How do the wholesalers and retailers realize greater revenue for the same product?" Simply, they acquire the good at a lower cost than the price at which they ultimately sell it. Consider the example of a retailer that buys a case (24 units) of yogurt from the manufacturer for $12.00:

- Wholesale Cost = $12.00
- Wholesale Cost per Unit = $12.00 / 24 = $.50 per cup

If a retailer sold each cup for $.50 per unit, then they'd create very big problems for themselves. That is, they would cover the costs of the product, but not the costs of rent, utilities, advertising, labor, and administrative costs, such as printing tags, managing inventory, and schedule staffing. Immediately, they'd find themselves running deficits, meaning they were running their business at a loss. And, obviously, that is a very fast path to bankruptcy and closure.

So, as an alternative, retailers sell their products at prices above cost. This difference is called gross margin and is used to absorb the cost of running a business. Let's look again at our yogurt:

- Wholesale Cost = $12.00
- Wholesale Cost per Unit = $12.00 / 24 = $.50 per cup

BUT:

- Retail Price = $.79 per cup
- Gross Margin Dollars = $.79 – $.50 = $.29
- Gross Margin Percent = $.29 / $.79 = 36.7%

Now, $.29 per selling unit of yogurt may not seem like much, especially in the face of rent, utilities, advertising, labor, and administrative costs. And, in truth, it isn't. But, consider that the store is making margin on almost every single item that is placed in the shopper's basket, scanned through the register and carried out of the store. It's the margin on each of these items that keep the store in business.

Now, for the second question, "…why is it necessary to have an offset for the risk of holding inventory?" As we noted above, retailers incur a number of different operating expenses, but, there are also risks associated with holding inventory, including spoilage, damages, and slippage or theft.

That is, in the grocery industry products can spoil or age past their "Best If Used By" dates. If this occurs, the value of the product in inventory goes to $0.00. Simply, it can't be sold and has no commercial value, regardless of what the retailer paid for it.

Somewhat related, think about the complexity of the retail supply chain, where product is held in cartons, stacked on pallets, and stored in warehouses before it makes its way to the selling floor. Accidents happen. Pallets tip, spilling their wares. Forklifts back into product, making it unsaleable. Customers drop products, denting cans and boxes. In many cases, this damaged product cannot be sold to consumers (or, is no longer attractive to consumers). In these cases also, its commercial value is $0.00.

The same is true for slippage, the difference between the expected price and the actual price received. This can occur when items are mis-tagged, mis-scanned, or under-valued in some other way. This doesn't imply that the commercial value is $0.00. Instead, it simply reflects that the retailer did not realize 100% of the commercial value that they would have expected. In the same way, theft prevents the retailer from realizing the commercial value of the goods.

Flood, fire, and obsolescence are other areas of risk associated with holding inventory. As you can see, these all create situations where the commercial value of goods can be impaired. But, for purposes, we want to consider another—lost opportunity. That is, if we have some portion of our financial resources tied up in the cost of inventory, we may not be able to take advantage other more attractive opportunities.

Let's think again about our yogurt example. But, instead of a purchase of a single case of product, let's expand to buy enough inventories to support multiple stores (70) for 1 month. And, for the sake of this exercise, let's assume that each store sells two cases of this type of yogurt per week.

- Weekly Volume = 2 x 24 Cups x 70 Stores = 3,360 Cups
- Monthly Volume = 4 weeks x 3,360 = 13,440
- Total Cost of Goods = 13,440 x $.50 Wholesale Cost = $6,720.00
- Total Revenue = 13,440 x $.79 Retail Price = $10,617.60
- Gross Margin Dollars = $10,617.60 – $6,720.00 = $3,897.60

This means that we'd spend $6,720.00 to make $3,897.60 in gross margin dollars. This may sound good. But, what if we could've spent the same to make $4,500 in gross margin dollars? $5,000? $6,000?

Because we had already invested $6,720.00 for yogurt, those dollars weren't available to buy other items. So, while we held the inventory and waited for the items to sell to return gross margin dollars to us, we were unable to consider other opportunities–opportunities that might have been more attractive. This is one of the risks associated with holding inventory.

So, you might wonder, how does a retailer know the right prices to charge to ensure they're able to manage operating costs and mitigate risk associated with holding inventory? Unfortunately, there isn't an answer that'll work perfectly for all situations and strategies. Instead, it’s important for retail managers to be familiar with the concepts of accounting, and to be able to read and analyze financial statements.

INTRODUCTION TO FINANCIAL PLANS

In the coming sections, we will consider how best to assess the financial performance of a company, comparing it to past performance or others within the competitive environment. We'll focus on tools retailers use to measure, summarize, and assess their finances. Ultimately, these are planning tools, which not only describe how well an organization is functioning, but can be diagnostic, helping to improve performance going forward. The goal is to improve the business' ability to turn assets and investments into profit for shareholders or owners.

FINANCIAL GOALS

LEARNING OBJECTIVES

- Identify the financial goals of the business

Although it may seem obvious, the first financial goal of a business is to make money. But, that really isn't specific enough. The goal is to make enough money to cover all expenses and grow the business as well. This means that revenue must cover the cost of goods sold, operating expenses, and taxes, while also having some portion left over to support investment back in the business to fund new or special initiatives. This requires that retailers understand profits as a percentage of sales (profit margin = profit / sales revenue), looking to increase it in future periods through efficient management of the business.

As we continue our learning, we will see how to use financial calculations and ratios to judge performance. In this way, they can be used a management tools to assess operations and identify areas for improvement. Some important ones to consider are operating profit margin, asset turnover, and return on assets.

Operating Profit Margin

Operating profit margin is sometimes referred to as earnings before interest, taxes, and depreciation. It is the measure of the profitability from business operations, and a good indicator of future profitability. This information can be gathered from the company's profit and loss statement and is calculated as operating margin = operating earnings / revenue, where operating earnings = revenue – cost of goods sold (COGS), labor, and general and administrative expenses. For example, let's consider a grocery store, FreshEatz, and their financials:

- Revenue- $15,000,000
- COGS- – 12,000,000
- Labor- – 1,800,000

- General & Admin- – 900,000
- Profit- $ 300,000

In this example, COGS, labor, and general and admin combine as operating expenses ($14,700,000), which are subtracted from the revenue ($15,000,000 – $14,700,000 = $300,000). Thus, the operating margin is $300,000 / $15,000,000 or 2%.

Asset Turn-over

Asset turnover, or turnover rate, is a ratio of how many times during a selling season assets are turned over, or used. In other words, it calculates how many sales dollars are generated for each dollar invested in assets. The formula is revenue / net assets. Again, let's return to the example of FreshEatz, whose asset turnover is 1.5 ($15,0000,000 / $10,000,000). This means that FreshEatz turns-over their assets 1 ½ during the selling season or period we're reviewing. This alone isn't telling. But, it potentially shares a great deal when compared to historical data or to competitors.

For example, if Goodness Great Tastes, a rival grocer in-market, has comparable revenue at $15,000,000 and assets of $15,000,000, their asset turn-over would be 1.0 ($15.000,000 / $15,000,000). This would indicate that Goodness Great Tastes doesn't deploy its assets to generate revenue as efficiently as FreshEatz.

Return on Assets

One way a firm can reflect its efficiency is return on assets (ROA), which is how much income is produced by its use of assets. Again, for a retail business, assets are inventory available for sale and the dollars generated by sales. Again, consider FreshEatz and Goodness Great Tastes, for an example. Let's assume each has profits of $300,000, Thus, it might appear that they are performing equally well.

But we know from earlier that they have different levels of assets. Thus, if we look closer, we see:

- FreshEatz- $10,000,000 in assets
- Goodness Great Tastes- $15,000,000 in assets.

In this scenario, FreshEatz would be considered more profitable, since they were able to generate more profit on a smaller value of assets ($300,000 / $10,000,000 = 3% for FreshEatz vs. $300,000 / $15,000,000 = 2% for Goodness Great Tastes). This means that every dollar in assets returns an extra $.03 for FreshEatz and only $.02 for Goodness Great Tastes. While that difference may appear modest, it reflects how well FreshEatz is deploying their assets to generate profit, compared to Goodness Great Tastes.

The retailer's ROA can also be calculated by multiplying the operating profit margin by asset turnover. Let's check to see whether this would work for FreshEatz, given our previous work.

- Operating Profit Margin- 2.0%
- Asset Turn-over- 1.5

Thus, 2.0% x 1.5 = 3.0%, which matches the previous calculation. Simply, you should know that there are different approaches to determining the ROA for a firm.

Ultimately, it's the use of ratios and calculations like the ones described above that can serve as helpful management tools for a firm, identifying areas that can help improve long-term profitability. Financial planning like this is the foundation of retail management, an important component of the retail strategic plan. Based on past performance, balanced by industry benchmarks and current trends, financial planning has an eye toward improved performance.

PROFIT-AND-LOSS STATEMENTS

LEARNING OBJECTIVES

- Analyze a profit-and-loss statement

The income statement is an accounting tool that reports a company's financial performance over a specific period, providing a summary of the business's revenues and expenses from operations and non-operational activity. Below, you'll find a sample income statement for XYZ Retailers. We will use this statement to analyze and understand the importance of financial statements for retailers.

image

As you can see, XYZ has net sales revenue of $250,000, given that there are no discounts or allowances to apply to reduce their sales. But, it may be more difficult to understand how to determine COGS (cost of goods sold). In truth, we have to understand how the XYZ operates and what the accounting entries mean.

In this case, XYZ had $40,000 in inventory on-hand, when the accounting period opened on 7/1/17. That simply means they had product in their inventory, such as boxes and cans sitting on their shelves and in their backroom. During the period, they made $100,000 in additional purchases to bring in more inventory. To this they add freight and customs expenses of $10,000. So, for the period, their total accumulated inventory would have been $150,000 ($40,000 + $100,000 + $10,000).

But, at the end of the period, they have only $60,000 of inventory on-hand. What happened to the rest? Easy. It was sold. So, we now know the COGS is $90,000 ($150,000 accumulated inventory – $60,000 ending inventory). Thus, we can see that sales net of COGS is $160,000 ($250,000 in revenue – $90,000 in COGS). Further, we see that XYZ has some non-traditional revenue streams: rent ($3,000) and commissions ($2,000). We add these to get a total net revenue of $165,000.

However, as we learned earlier, businesses incur other operating expenses. For XYZ, these are related to selling and distribution, general and administrative, and financial. In total, they sum to $105,000 ($14,500 in selling and distribution + $89,000 in general and administrative + $1,500 in financial) and are deducted from the total net revenue to show $60,000 in net profit (EBIT or earnings before interest and taxes).

While the numbers are straight forward, it's the meaning behind them that's most important and telling for a decision-maker, looking to improve the financial performance of the organization. That is, they reflect what is happening in the business' operations for better or for worse. For example, the closing inventory is $20,000 greater than the opening inventory. Does this reflect a slow down in sales or a ramp-up in inventory on-hand to accommodate seasonality? If we compared these results against past periods, what we would learn about changes selling and distribution expenses? Wages? Are these costs increasing or decreasing? And, at what rate are they increasing/decreasing relative to revenue and profit?

As you can see, the income statement provides important information about the financial performance of the firm, helping decision-makers understand where to focus to improve going forward. The following video, which uses Walmart as an example, may be a helpful tutorial to broaden your understanding of income statements.

Watch this video online: https://www.youtube.com/embed/jovKWaUxdmU?feature=oembed

PERFORMANCE OBJECTIVES AND MEASUREMENTS

This page is intentionally left blank, believing that the content is shared in-depth in other sections, including the following *Financial Goals of a Business.*

INTRODUCTION TO INCOME STATEMENTS

In the next sections, we'll focus on accounting tools, which help decision-makers better understand what is happening within the business. The income statement, also known as the profit and loss statement or statement of operations, is the foundation for this financial analysis. It provides a snapshot of a company's financial performance over a specified period of time: a month, a quarter, year-to-date, and annually.

In using the income statement, managers are equipped to make decision targeted at improving the firm's profitability. There are four components that make up this profit management path:

- Net Sales
- Cost of Goods Sold (COGS)
- Gross Margin
- Operating Profit Margin

These are all components of the income or profit and loss statement.

SALES, COSTS, AND EXPENSES

LEARNING OBJECTIVES

- Define net sales, costs of goods sold, operating expenses

Understanding and being able to draw insights from the income statement is critically important for managers. Specifically, the four components that make up the profit management path are found in the income statement:

- Net Sales
- Cost of Goods Sold (COGS)
- Gross Margin
- Operating Profit Margin

Some of these components may be familiar to you from the previous sections, but we will go into more detail here. It's important that you have a good understanding of key terms and how they're used so that you can influence profitability for your organization.

To begin:

- Gross sales = total sales before returns, discounts, or allowances
- Net sales = gross sales – (returns + discounts + allowances)

Let's take a moment to consider how or why returns, discounts, or allowances occur. Certainly, returns are easily understood–product gets returned to vendors when merchandise is shipped in errors or has some defect. But, what about discounts or allowances? These can occur for a number of reasons. For example, a vendor might credit a customer (reduce their price) if:

- The retailer keeps the damaged merchandise, understanding that the retailer will likely have to reduce their own selling price to turn the inventory
- The retailer buys in bulk quantities, creating efficiencies for the vendor
- The retailer picks up the shipment at the warehouse, reducing the logistics costs for the vendor.

Similarly, a vendor might offer a discount on merchandise if bills are paid within a specific window. For example, 2% net 10 means the merchandise will be discounted 2% if the payment is received within 10 days.

You'll note, these examples tend to focus on allowances and discounts vendors make for retailers. But, retailers might have allowances of their own. For example, if a retailer offers a warranty on products, they'll discount their gross sales to reflect future warranty claims.

Other important terms to understand relate to the cost side of managing the business.

Cost of goods sold is the amount the retailer pays for the merchandise it sells. COGS does not include operating expenses of the firm, it is just the cost of merchandise sold. The cost of any unsold merchandise will be subtracted from COGS (ending inventory). This should make sense because the product is unsold and the firm holds the asset in its inventory.

Gross margin = net sales – cost of goods sold. This is generally expressed dollars, but can also be shown as a percentage (gross margin percent = gross margin dollars / net sales). As you read earlier, a retailer selling its goods for the same price it purchases it will immediately find it's running deficits. And, obviously, that is a very fast path to bankruptcy and closure. So, as an alternative, retailers sell their products at prices above cost.

Operating profit margin = gross margin – (operating expenses + extraordinary (recurring) operating expenses). Operating expenses are additional expenses of running the business like rent, utilities, labor costs, etc.

These concepts help us examine financial performance, providing insight on the business' revenues and expenses, which influence profitability.

GROSS MARGIN PERCENTAGE

LEARNING OBJECTIVES

- Analyze the gross margin percentage of sample retailers

Gross margin = net sales – cost of goods sold. However, to express this as a percentage, gross margin is divided by net sales (gross margin dollars / net sales). This allows the retailer to assess what portion of sales were spent on COGS to generate the sales and what portion remains to cover operating expenses. That is:

- 1 – gross margin percent = the portion of sales spent as COGS
- 1 – (COGS / net sales) = gross margin percent

NET PROFIT MARGIN

LEARNING OBJECTIVES

- Calculate the net profit margin of a sample retailer

Net profit margin = operating profit margin – (extraordinary non-recurring expenses + interest payments + taxes + depreciation). Interest payments include interest on business loans. Taxes include taxes paid to the government. Depreciation is how much any equipment has lost value during the period. This is calculated based on the useful life of the equipment, at the time of acquisition.

As you can see, the resulting net profit figure will be much different (smaller) than what is calculated for gross margin. And, that should make sense because of where the inputs are found within the income statement. That is, gross margin uses gross margin dollars. That figure comes early in the income statement BEFORE additional expenses are applied. In fact, that's what "gross" refers to in gross margin. Gross means total or "without deductions."

By comparison, net profit margin comes after all considerations of expenses. And, that is exactly what "net" means—with ALL expenses deducted.

INTRODUCTION TO BALANCE SHEETS

The balance sheet shows a financial picture of what a business is worth at a particular point in time—usually the end of a month. It is not the same thing as an income statement, which provides a snapshot of a company's financial performance over a specified period of time. Instead, the balance sheet shows the culmination of financial performance, including how much the company owns (assets), how much the company owes (liabilities), and the value of the firm (owner's equity or assets – liabilities)

The accounting equation ASSETS = LIABILITIES + OWNER'S EQUITY defines the balance sheet. Think of it this way. There are two sides to a ledger, which must remain balanced or completely equal to one another.

On the left side of the ledger are the company's assets, including cash, accounts receivable (outstanding bills that customers will pay), inventory, facilities, and equipment. These reflect elements of the asset management path, the economic resources owned by a company, such as inventory, buildings, plants, and equipment, in addition to cash and accounts receivables.

On the right side of the edger are the company's liabilities or things that it owes, encompassing accounts payable (bills it needs to pay for its vendors), wages payable (salaries and benefits that are owed to employees), long-term notes (outstanding loans against which the company is making payments), and more.

These are neither good nor bad; they just are. Because we're looking at the business at a moment in time, we see activity of the firm. Some of that activity means that they have outstanding liabilities or money they owe creditors. For example, if we looked at the balance sheet on payday, wages payable would be $0.00 because wages had been paid and the next pay period had not yet begun.

But, if this is true, if liabilities and assets can change depending upon the time period, how can we be sure that the left side of the ledger (assets) will always balance with the right side of the ledger (liabilities)? Easy: owners' equity.

Owners' equity simply means the value the owners could extract from the company. Think about it this way. If a firm had $100 in assets and $50 in liabilities, what amount could the owners extract from the business if they closed it today? Well, they would use the $100 in assets to cover the $50 in liabilities, leaving $50 in owner's equity. Then, they'd share the $50 as the proceeds of having managed and run the business.

But, what if part of the liabilities had been $10 of wages payable and they were paid? How would that change the balance sheet? Well, likely this would mean cash, an asset used to pay wages, decreased by $10 and wages payable, a liability, decreased by $10. So, assets would equal $90, liabilities would equal $40 and owners' equity would still be $50.

Owners' equity is positioned on the right side of the ledger because it reflects value that can be drawn out of the company. Think of it this way. An owner (or a shareholder) can happily keep their money invested in the company. But, on some date, they may decide that they have another use for the funds. When this occurs, the firm will need to convert some assets to pay off that owner or shareholder.

So, a firm's value is always expressed by the balance sheet, where assets = liabilities and owner's equity. Here is a sample balance sheet, though it doesn't have a right-side/left-side orientation. However, you will see that assets do equal liabilities + owners' equity:

ZYX Retailers Balance Sheet, December 31, 2019

ASSETS			**LIABILITIES**	
Current Assets			Current Liabilities	
Cash	$ 10,900		Accounts Payable	$ 38,500
Accounts Receivable	$ 40,200		Wages Payable	$ 8,800
Inventory	$ 98,000		Short-term Notes Payable	$ 1,100
Prepaid Expenses	$ 2,000		Total Current Liabilities	$ 48,400
Total Current Assets	$151,100			
Fixed Assets			Long-Term Liabilities	
Buildings	$180,000		Long-term Notes Payable	$ 25,000
Equipment	$201,000		Total Long-term Liabilities	$ 25,000
Total Fixed Assets	$381,000			
TOTAL ASSETS ($151,100 + $381,000)	$532,100		TOTAL LIABILITIES ($48,400 + $25,000)	$ 73,400
			OWNERS' EQUITY	
			Common Stock	
			Retained Earnings	$360,000
			Total Stockholders' Equity	$ 98,700
				$458,700
			TOTAL LIABILITIES & OWNERS' EQUITY	$532,100

ASSETS AND LIABILITIES

LEARNING OBJECTIVES

- Define asset, liability, and net worth

As you learned above, Assets are resources owned by a company that can be expressed in monetary terms. Assets can be categorized as Current Assets or Fixed Assets. Current Assets are assets owned by a company that will be consumed or converted to cash within one year, e.g.:

- Cash, i.e. monies held in checking or savings account. Also referred to as liquid funds.
- Accounts Receivable, i.e. monies owed to the business by customers, to be collected in the near future, e.g. buy now, pay later
- Inventory, i.e. cost of goods in stock, available for sale to customers.
- Prepaid Expenses, purchases made by the company, paid in advance, that are assets until they expire or are consumed.

Fixed Assets, also referred to as Plant & Equipment, are assets owned by the company that will last longer than one year and are used in the operation of the business, e.g.:

- Buildings
- Vehicles,
- Land
- Machinery.

Liabilities are debts or obligations of the company – money owed to suppliers. Current Liabilities are debts or obligations that are due within one year, e.g.:

- Accounts payable, i.e. is amount the company owes to suppliers for items or services purchased
- Salaries payable, i.e. payroll dollars owed to employees for work performed but not yet paid

Long-term Liabilities are debts or obligations that the company owes but does not have to pay within one year like Mortgage notes payable, i.e. the amount the company owes on a building; usually the building is considered collateral.

Owner's Equity, also known as Stockholders' Equity, represents the rights or interests of those that have invested in the company. In a corporation it is referred to as Shareholders' Equity. Common Stock is the amount of initial and subsequent investment of corporation owners by the purchase of shares of stock. Retained Earnings is the earnings (profits) that the company is keeping (retaining) in the company.

Net Worth is the value of the company. Assets minus Liabilities equals Net Worth.

ASSET TURNOVER RATE

LEARNING OBJECTIVES

- Analyze the asset turnover rate

Asset Turnover, or turnover rate is a ratio of how many times during a selling season assets are turned over, or used. In other words, it calculates how many sales dollars are generated for each dollar invested in assets. The formula is Revenue / Net Assets.

Think about how this might apply within a retail context. Imagine you're the Front-end Manager at your local supermarket, with responsibilities including the coffee shop and floral department. Looking at the Income Statement for successive periods, you can see that Asset Turn-over is slowing. You know that your buying has been steady, so this must mean that Net Sales are being affected.

As you walk the area, you notice that you still have mugs with hearts on them and vases that say "I love you Mom" on display– still at full retail price. This looks like stuff from Valentine's and Mother's Day. Remnant inventory is a concern– if they don't sell, there will be less money to pay for planned purchases. What can you do to help the situation?

Markdown the slow selling "old merchandise" in order to stimulate sales and move the merchandise. It may not sell very well, but it will sell a lot better than leaving it fully priced. Of course, this can have a slightly negative impact on gross margin, but it will increase sales. Ultimately, this will make it possible to order new merchandise that will stimulate interest and sales. If possible, it might also be possible to work with the vendor to return the unsold, aging merchandise or to share the costs of markdowns.

RETURN ON ASSETS

LEARNING OBJECTIVES

- Calculate a return on assets (ROA) for a sample retailer

One way a firm can reflect its efficiency is Return on Assets (ROA), i.e. how much income is produced by its use of assets. Again, for a retail business, assets are inventory available for sale and the dollars generated by sales.

Generally, Return on Assets is calculated as ROA = Net Profit / Total Assets. The following video shows this approach: https://www.youtube.com/watch?v=u-pxUo5JJm4. But, it can also be calculated by multiplying the Operating Profit Margin x Asset Turnover as shown here: https://www.youtube.com/watch?v=i7ymFp-9trM.

Of course, it's important to understand that retailers manage their operations to meet their own financial goals. Thus, factors that influence Operating Profit Margin and Asset Turnover may vary between retailers. For example, consider Daisy Donuts and Jasmine Jewelers, which are neighbors in the same strip mall, but have much different financial goals. As such, they have much different Operating Profit Margin and Asset Turnover, despite ROAs of 15%.

- Daisy Donuts
    - Asset Turnover- 5.0, given donuts are perishable and are priced to sell quickly to avoid spoilage
    - Operating Profit Margin- 3%.
- Jasmine Jewelers s
    - Asset Turnover- 1.0, given jewelry is expensive and a considered purchase
    - Operating Profit Margin- 15%.

As you can see, both outlets have the same ROA, but the components that make up that ROA are vastly different, reflective of each's retailer's financial objectives.

KEY RATIOS

LEARNING OBJECTIVES

- Use key ratios to inform decisions

Additional key ratios important in helping a retailer judge performance and financial well-being include:

- Inventory Turnover, which is a measure of the productivity of inventory, i.e. the goods available for sale. The formula to calculate inventory turnover is:

Inventory Turnover = Cost of Goods Sold / Average Inventory at Cost.

- Current Ratio, which is a measure of financial strength, reflecting the firm's ability to pay short and long-term obligations. The formula considers the company's current total assets (Liquid and Fixed) relative to its current Total liabilities. The formula to calculate the Current Ratio is:

Current Ration = Current Assets / Current Liabilities

- Quick Ratio, is another measure of financial strength. However, Inventory is NOT counted among Current Assets. This is because the Quick Ratio seeks to describe a firm's ability to pay short and long-term obligations, but does not regard Inventory as sufficiently liquid. Instead, it considers only Assets that can be converted to cash within 90 days like Cash, Cash Equivalents, Marketable Securities like Stocks & Bonds and Accounts Receivable. The formula for the Quick Ratio is:

Quick Ratio = (Current Assets – Inventory) / Current Liabilities

- Return on Investment (ROI), also known as Return on Net Worth (RONW), is a performance measure used to assess the efficiency of an investment, i.e. how well it generates profit compared to another investment. The formula for ROI is:

ROI = Net Profit / Investment Cost

Although we've examined them previously, we include both Gross Margin Percentage (Gross Margin / Net Sales) and Net Profit Margin (Net Profit / Net Sales) here because they, like the others, are part of the Strategic Profit Model.

INTRODUCTION TO BUDGETING AND CASH FLOW

The budgeting process helps retailers balance expenditures with incoming revenue.

As you read previously, retailers manage a host of operational expenses like: rent, utilities, labor and inventory costs. And, while the sale of products does provide income, the timing of the transactions means that Retail Managers may be awaiting revenue to pay-off past purchases or to make new ones. Thus, there is a need to coordinate purchases and payments—cash flow. This can be especially complex, when considering start-up or seasonal businesses.

Cash flow refers to the total amount of money being transferred into or out of a business at a given moment of time. Businesses seek to generate long-term positive cash flow.

BUDGET PREPARATION

LEARNING OBJECTIVES

- Describe each decision of budget preparation

During budget preparation, the retail manager needs to ask and answer the following questions:

1. What are the expected sales for this time period?
2. How much merchandise on hand will be needed to produce the projected sales?
3. How much and when will price reductions need to be taken in order to dispose of merchandise to generate sales and revenue?
4. What additional merchandise purchases will be needed during the season?
5. What Gross Margin dollars and percent will be needed to achieve the desired profit?

On the face of it, these aren't especially difficult questions to answer.

1. Perhaps we'd estimate that sales continue at the same rate that they did in the previous time period. Or, perhaps, we project that they'll exceed last year's (LY's) sales levels by a certain percent (+x%). Or, it's possible that we'd expect a given item to perform similarly to another.
2. If we have a fair understanding of expected sales (Revenue) and the Average Selling Price, we can easily determine inventory needs. Inventory = Sales Revenue / Average Selling Price
3. This one is a bit more complex, but you'll notice that in point #2, we didn't divide Sales Revenue by Retail Price. Instead, we used "Average Selling Price." This conveys that we don't expect to sell all items at full price. Rather, some portion of our inventory will be discounted to accelerate turns and reduce inventory (risk). Looking at past data, a retail manager may know what portion or percent of a product's inventory will be discounted to ensure there isn't remnant inventory. Further, they may have good information about when decisions to reduce prices should occur. Lacking appropriate historical references, a retail manager will have to monitor more closely these decisions.
4. This is a question of "What if?" What if we don't have enough cash on-hand to order the full inventory need to meet our revenue goals? When will we need to re-order product? What if the product is far more successful than we expected and we'll exceed our revenue goals? Will we be able to place more orders? Will they arrive in time to capitalize on the opportunity?
5. As you saw earlier, Gross Margin Dollars and Gross Margin Percent are easily calculated.
    1. Gross Margin Dollars = Selling Price – Cost of Goods
    2. Gross Margin Percent = (Selling Price – Cost of Goods) / Selling Price

But, where this gets much, much more difficult is understanding "how much will be needed to achieve the desired profit?"

The challenge for a business is to build a budget that provides for the financial health of the company. That is, a budget that generates sufficient revenue to cover operating expenses, while also returning profit for reinvestment in the company or distribution to the owners in the form of cash payouts (dividends). Thus, the above questions take on heightened importance because they directly impact the financial health and future of the company.

If sales fall below budget projections, then there isn't enough positive cash flow (income greater than expenses) to cover all operating costs or provide for reinvestment in the business. In this event, the firm risks several outcomes, including:

- It forgoes important investments in the business that would spur future growth, while its competitors move ahead.
- It must borrow funds to cover its performance miss, meaning that some future cash flow will be required to pay back the loan, including interest.
- It must reduce costs, possibly including Labor or Marketing, leaving people laid-off and promotions less effective tan competition, respectively.

As you might assume, those are not good situations for the firm to find itself. Thus, the budgeting process becomes critically important to ensure the financial health and future of the company.

ZERO-BASED VS. INCREMENTAL BUDGETING

LEARNING OBJECTIVES

- Differentiate between zero-based and incremental budgeting

Given the pressure to budget effectively, firms scrutinize the process. Ultimately, there are two common approaches for establishing an annual budget:

- Zero-based
- Incremental

Zero-based budgeting assumes that the budget is built from “zero.” That is, nothing is carried-over or assumed from previous periods. Often, there is a temptation within organizations to justify activity with “that’s what we’ve always done” or “last year, we did this.” Those justifications imply that past activity, and the associated spend, will be repeated.

However, within a zero-based budget approach, past activity and spend should NOT be assumed. The budget is not based on previous budgets or past performance. Instead, each expense needs to be justified before it will be added to the official budget.

The benefit of a zero-based budget is that it forces decision-makers to scrutinize their assumptions about what has and will make their plan effective, prioritizing specific activities. For instance, consider a retailer that runs an annual Back to School promotion, including granola bars, toaster pastries and fruit snacks. Let’s assume that they invest $45,000 to advertise the sale, not including product discounts:

- Granola Bars
    - o Sales Revenue- $258,691.23
    - o Gross Margin- $ 63,638.04
    - o Gross Margin Percent- 6%
- Toaster Pastries
    - o Sales Revenue- $103,724.51
    - o Gross Margin- $ 20,774.90
    - o Gross Margin Percent- 0%
- Fruit Snacks
    - o Sales Revenue- $ 97,319.61
    - o Gross Margin- $ 32,115.47
    - o Gross Margin Percent- 0%

Let’s assume this was a successful promotion—it did generate $116,528.41 in Gross Margin ($63,638.04 + $20,774.90 + $32,115.47), not including other items that shoppers may have added to their carts during the trip.

But, how might the investment change in Year 2, using a zero-based budget assumption? Think about the $45,000 advertising expense. Shouldn’t that be applied across each segment, i.e. granola bars, toaster pastries and fruit snacks? Do you start to feel differently about any of the product segments, knowing that $15,000 in advertising costs will need to be subtracted from their gross margin?

Said another way, would you still argue to invest $15,000 to advertise toaster pastries, if you’ll only generate $20,774.90? As it stands, you have $5,774.90 ($20,774.90 – $15,000.00) to pay against other operating expenses, after allocating $15,000 in advertising costs. Would you be eager to defend that to your boss? With a zero-based budgeting approach, you’d need to defend the activity and spend, if you wanted to include it in the budget. That might be a tough task, indeed.

Incremental budgeting uses previous budgets and actual performance as a baseline from which to build forward-looking budgets. Each line item, i.e. each planned expense, is adjusted to reflect expected competitive activity, economic factors, consumer trends and other applicable issues that potentially affect performance. Thus, incremental budgeting takes into consideration the changing competitive landscape and the organization’s needs.

In this approach, decision-makers make adjustments to year over year (YOY, meaning as compared to LY) budgets to reflect anticipated changes to the business environment. In the example used above, the manager might reflect the cost of advertising as $50,000, believing that media rates will increase in the coming year. Or, they may increase the expected Sales Revenue for each of the product segments, having seen positive trends for each throughout the year. These small changes are built into an overall budget that provides a comprehensive view of all activity and associated costs.

The benefit of incremental budgeting is that it challenges decision-makers to go in-depth to analyze planned activity and associated expenses. Further, it encourages those same managers to consider what trade-offs they'd make within their budget to prioritize certain activities over others. That is, if leaders have determined that the total budget will not increase by more than 4% YOY, then a manager with an estimated budget of +7% will be expected to update their plan, prioritizing the plans that best assures they meet their annual goals, while reducing exposure on others to meet the +4% target. This is particularly effective, when multiple decision-makers are competing for a limited supply of dollars to invest. Simply, leadership will challenge the managers to identify the best opportunities for growth, ultimately allocating funding for them while managing the budget to its target.

ONGOING BUDGETING PROCESS

LEARNING OBJECTIVES

- List what needs to be documented in the ongoing budgeting process

For effective budgeting, the firm must first select its approach—zero-based or incremental. For zero-based budgeting, a manager needs a full list of expected revenue and expense items for the upcoming season. In this way, they can build their budget plan to show:

- Expected sales for the period
- Inventory needs, including timing of purchases
- Average Selling Price assumptions, including timing of discounts
- Gross Margin Dollars and Gross Margin Percent projections
- And, the resulting Profit assumptions.

That said, most retailers use incremental budgeting.

To facilitate the budgeting process, the retail manager needs to engage in an ongoing budget process. That is, the retail manager must closely monitor actual sales, cost of goods sold and expenditures to see how closely actual performance aligns with the budget or plan that was originally created. Differences and their causes are noted so that decision-makers can make adjustments to operations. That is, if an item is under-performing budget assumptions, the manager might promote the item, reduce its price or seek to cancel future orders.

The company may use this same information about performance, relative to budget, to make adjustments at a more macro-level. That is, changes to the budget can be made across categories, division or business units, allocating funds to certain areas, while reducing funds for other areas. For example, if the cereal category is under-performing, while the produce category is exceeding expectations, a retailer may reallocate funds from cereal to spur even greater growth in produce. Similarly, if a chain of stores operates several banners, funds may be shifted between those business units.

As you can see, budgeting is an ongoing process for a firm. The job is not over, when the budget is finalized. Instead, performance is continually monitored, relative to the budget. To ensure financial goals are attained, adjustments are made when necessary. Further, differences between the budget plan and actual results, and their causes, are taken into consideration for future budget preparation.

SEASONALITY AND CASH FLOW

LEARNING OBJECTIVES

- Explain the effect of seasonality on cash flow of some retailers

Seasonality refers to an imbalance in the timing of Sales Revenue for a given class of merchandise. To simplify this, think about pumpkins and bulk candy, for example. Certainly, shoppers might buy pumpkins and bulk, assorted candy throughout the year. But, we might expect that these purchases peak in October, building towards Halloween. In this way, the market for pumpkins and bulk candy reflect seasonality. Yes, there are on-going sales, but there are clear peaks in demand at specific times of the year.

Other examples might include:

- Winter holiday merchandise, which may sell beginning as early as Labor Day (early September) through late December
- Swimwear, which may sell as early as January (beginning of Cruise Season) through early summer, with some retailers starting to mark down swimwear around mid July

Of course, these are not exhaustive of all seasonal items, but are intended to give you examples. Within a supermarket, grocers might actively promote seasonal items and/ or seasonal consumption of specific items. Think about heavy merchandising periods, including:

- January- Chips and soft drinks in advance of the Super Bowl
- February- Boxed chocolate for Valentine's Day
- May- Floral and greeting cards for Graduates & Mother's Day
- July- Hot dogs, ground beef and buns for the 4th of July
- November- Turkeys and prepared pies for Thanksgiving

Cash flow refers to the total amount of money being transferred into or out of a business at a given moment of time. Businesses seek to generate long-term positive cash flow. But, because seasonality reflects an imbalance in the timing of Sales Revenue, Cash Flow can be uneven, creating challenges for how to manage the financials of the firm.

For example, consider Brighter Beach, a retailer that sells swimwear and accessories for women, men and children. As you would expect, their high selling season extends from March through August. Yet, the store is open year round. Thus, they must produce enough revenue during their high season to sustain the business during the slower months.

That is, the business incurs operating expenses throughout the full year, e.g. Rent, Utilities, Labor, etc. Thus, sales and profits during the summer months must be enough to cover all annual expenses. This includes capital to purchase goods (inventory) to sell in the coming selling season. It's the timing of these transactions that makes budgeting decisions especially complex. The managers of Brighter Beach, and those at other seasonal businesses, may need to manage cash flow to pay-off past purchases or to make new ones.

PUTTING IT TOGETHER: FINANCIAL STRATEGIES IN RETAIL

Putting It Together: Financial Strategies in Retail

As we began this module, we asked, “how does a retailer know the right prices to charge to ensure they’re able to manage operating costs and mitigate risk associated with holding inventory?” And, while this is an important question, it really just served as a way to introduce concepts in accounting like cash flow, income statements, balance sheets and performance ratios,. As you now know, these are powerful tools for assessing the financial performance of a firm.

That is, while it is certainly important to offer the right goods… at the right place… at the right time… at the right price, it is absolutely essential to understand how to measure and track profitability. Simply, a business will cease to be a business if it is not profitable. Fortunately, accounting provides ways for us to express what is happening in the business across different periods.

Note that at its simplest, there are four components that make up this Profit Management Path:

- Net Sales
- Cost of Goods Sold (COGS)
- Gross Margin
- Operating Profit Margin.

With these tools, we can compare performance, making adjustment to improve long-term profitability. Ratios and calculations like Asset Turn-over and Return on Assets are similarly helpful, while the Current and Quick Ratios reflect the overall financial health of the organization. Financial Analysis and Planning like this is the foundation of Retail Management, an important component of the Retail Strategic Plan.

Before you go, consider reviewing the following article, which gives a worthwhile comparison of financial components of leading retailers:

https://www.fungglobalretailtech.com/research/amazon-vs-top-us-retailers-margins-and-international-sales/

MODULE 10: RETAIL OPERATIONS: MANAGING THE STORE

WHY IT MATTERS: RETAIL OPERATIONS AND MANAGING THE STORE

What you'll learn to do: Define the operational policies and tasks to be implemented in a retail business

Good employees are the backbone of any company. In a retail company, employees are the first people your customers meet! Without an excellent workforce, who are happy with their work, your business can suffer.

Finding the right person for the right job is a huge part of what the human resources department is tasked with. We talked in depth about those folks in Module 8, so here are more things they need to accomplish! Screening, interviewing and hiring is just the tip of the employee iceberg. Then the training, begins!

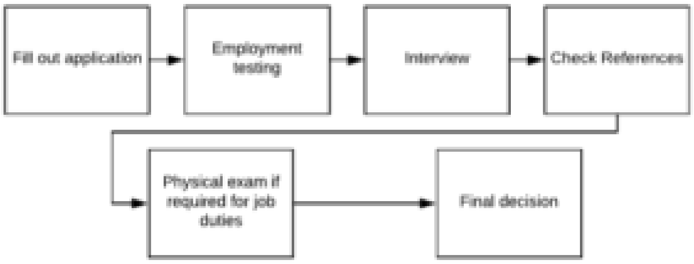
INTRODUCTION TO FINDING PERSONNEL

Retail experiencing high staff turnover. This means that retail owners and managers need a comprehensive strategy for identifying, finding and hiring the best people. Harver, an online blog, lists 7 reasons for high retail

turnover here. One of the top issues is (thankfully) the highly competitive job market. While wages are stagnant since the 1970s, available work that is (arguably) competitive is at a relative high. As of mid-2018, the US unemployment rate was at a low of 4.1%. This is down from close to 10% in 2010.

SCREENING PROSPECTIVE EMPLOYEES

Screening employees is an important component of the hiring process.



So once you put the word out that you are filling positions, the first step will be to collect applications. With the very low unemployment rate right now, it can be challenging to get a good applicant pool. In a perfect world, you would get multiple applications for a position, that you could then weight based on education, experience or another criteria for the particular position. Once you have decided who to interview, make the calls and the appointments!

If there are certain testing procedures that might be helpful, such as an aptitude test for math needed for a job or perhaps a physical test to insure that the applicants can lift the boxes necessary for stocking shelves, now would be the time to do those tests as well. A bookkeeping test might be helpful if you are hiring in the accounting department, and personality tests may be done to insure that the employee will fit the job you are filling.

Drug tests are also important for certain positions. If you are hiring a forklift driver for example, having someone who is not using illegal substances might be extremely important. As an employer, you have the option to implement drug testing if you see that as an important component of your environment.

Some organizations have very planned and structured interviews. A series of question are asked to all applicants and there are a few people doing the interviewing. Other companies prefer a more casual approach to interviews, letting one question organically lead to the next. Which method works for your company will vary based on management styles and culture.

Unstructured interviews though can pose problems in that you do not have the same information for each applicant to compare. Structured interviews on the other hand, can provide systematic data for comparison, but may not get as much information as an unstructured one where you can ask further questions to get more information.

Once you have picked your top candidates for a position, it is time to check references. Asking for personal and business references can be helpful, but since it is the applicant giving you the names, it may not be as useful as you may think!

So, if the position you are hiring for requires certain physical components, such as the ability to lift a certain amount of weight repeatedly over the course of a shift, you will want to do some physical testing as well. Reminder this can only be done if it is a component of the job!! As you may remember from the unit on handicapped accessibility, you are, as an employer, responsible for making reasonable accommodations for disabilities when hiring.

All of these steps will lead you to final selection!! But let’s talk about the important parts of the interview process first.

INTERVIEWING PROSPECTIVE EMPLOYEES

In our previous unit, we started to talk about interviewing prospective employees, and the different types of interviews we may use. Let's expand now on those types.

Have you ever gone into a job interview and there are four people at a conference table with a list of questions? This is called a structured or planned interview. In this type of interview, you will be asked the same questions, in the same order as all other applicants for the position. CLICK HERE for more information about structured interviews. This type of interview allows the hiring committee to:

1. Learn a wide range of information about each candidate.
2. A calmer interview setting, since the questions are predetermined.
3. Learn the needed information in a uniform way, so it alleviates missing an important question.

So, the opposite of a structured interview is an unstructured one! In this type of interview, the candidate comes in, and the questions are not structured, and are unordered. There may be one or more interviewers in this process. There are some good points and negative points to this type of interview as well:

1. The interviewer can ask additional questions after one question is answered, potentially leading to more useful information about the candidates skills for the position.
2. It may create a more relaxed interview setting, similar to just having a conversation.
3. Unfortunately, it may not lead to as reliable of information as the structured interview as each person is not asked the same questions, and bias may play into the process.

As an interviewer, it is your job to determine if an applicant has the appropriate education, skills and experience to complete the tasks required of the position. Personality may also be an important component, especially in the retail setting. If, for example, you are hiring for a clerk position, where the employee will have constant contact with the public, this person may need different skills than someone hired for the stockroom. The biggest goal of the interview process is to insure that the person you hire, can perform the functions of the position effectively and efficiently!

TRAINING NEW EMPLOYEES

You have hired who you think is the PERFECT new addition to your sales floor at your new retail home improvement store. No matter how perfect the fit is, the next step is making sure to train the employee effectively to help them feel comfortable in the position, and to insure they are meeting the requirements of your company. Each company will have a specific method to train their employees. These plans may be set up in an excel workbook format for consistency. Small companies may have one employee training the new employee. But whatever the size of your company, the goal is the same, to insure a well trained employee who knows the tasks and requirements of their position.

Orientation must happen first, and includes the basics of hiring a new employee. All payroll paperwork needs to be completed, including the W-4, I-9 and any state forms that may be required. It may also be necessary to obtain direct deposit information from your new employee, or to have them complete paperwork for insurance programs or other employee benefit programs. This process should be done first, prior to beginning any training programs.This process will also include company overview, policies and procedures, compensation and basic safety rules. Depending on your organization, you may put other components into this process.

Once the employee has the general company overview, orientation for their particular job should begin. This will include department orientation, job duties and responsibilities outlined, policies and procedures clarified and tours and introductions to other employees. Again, depending on the size of your company, this may be over a few hours or over several days. Make sure you have an orientation plan in place, so new employees feel welcomed and comfortable in their new role.

Training can also be called “onboarding”. Some large companies have entire online systems set up with checklists to onboard new employees. The Society for Human Resource Management (SHRM) has excellent resources to use in implementing an onboarding process for new employees. If you decide to work in the human resources area of your company, it is strongly encouraged to join SHRM to be kept current on all aspects of human resource management, due to frequent changes in the laws and guidelines surrounding employment.

Training is the process of learning the steps and processes of the job. It is like a course to learn the position. Training is also a continuous process, as new equipment, machinery or processes develop. Training is a complex and ongoing process, which starts when an employee is hired, and continues through the length of employment.

Starting with a training needs assessment, which helps managers determine what training needs to be provided is a good idea. Then programs can be put together to meet the needs of the employees and departments. There are several different ways to offer training:

1. Lectures- can be effective, but not a good way for all learners or all positions. Some people have the ability to learn by listening, but others need a more hands on approach.
2. Practice- this method is more effective for most learning processes. Imagine you are hired to work at the checkout terminal of a retail grocery store. Would it be more effective to have a cart full of groceries to practice with, or listen to someone walk you through the process? Most people would learn better by practicing!

Adults may need a different training process, especially if an adult is already skilled in the area they will be working in. Treating adults as partners in the learning process, rather than as passive participants is important. Offer practice situations to help them see how your organization does a certain task. Make sure to offer assignments and practice that encourages critical thinking and effort to learn the process, and that correlate closely to the work they will be doing.

Training is a very important component of the onboarding process. Make sure to put together a good program that helps employees feel confident in the tasks needed to fulfill their job roles.

INTRODUCTION TO RETAINING PERSONNEL

Once you hire great employees, then it is important to keep them! We live in a time of low unemployment, and unhappy employees have the opportunity to seek employment elsewhere. How do the best companies keep their employees?

EMPLOYEES EVALUATIONS AND FEEDBACK

Your new retail store has hired the perfect group of employees to run an effective operation. Now it has been a few months and you are looking for ways to evaluate your employees. Monster.com offers some insight into effectively evaluating the retail employee.

As managers, your days can be filled from morning to night. Evaluating employees is a seemingly easy task to put off until later. Unfortunately, if we don't take the time to review employee performance, they may leave for an

employer who does. It isn't a task that most managers enjoy, so what are some things we can do to make it a more palatable task?

First, don't think about it as a critical event. If it is scheduled as a routine process, say every three to six months, it can be viewed more as a way to evaluate performance and make improvements, rather than a critical process. Start with a bottom up approach, asking the employee how they feel their job is going and how you may offer help to them in reaching their goals. Start with the positive! Everyone is doing something well.

Properly implemented performance reviews, evaluations and the resulting feedback can provide productive feedback to help employees improve their performance. Suggesting needed changes in performance is part of the process, and when offered in a positive environment can foster the needed improvement. Suggesting changes and coaching employees to improvement is an effective way to provide feedback. How might this look in a real world example?

Manager- John, thank you for coming in today so we can talk about how the job is going. First, are there any areas where we could be of help for you to complete your tasks?

John- Thanks for asking. Yes, the mops I use on the retail floor are getting a little worn. I think I could be faster on the task with new ones.

Manager- Awesome John. Thank you for the information. I will take a look and see how we can fix that for you. That was one of the issues I wanted to chat with you about today, was speed. We will look at the mop issue, and then let's put together a plan to increase how many floors you can get done in your shift. Do you see other ways you may be able to speed up the task so we can get all of the work done?

John- Yes, I think if I can put together a schedule of which floors to do which day, so they aren't so dirty when I get to them, it will help.

Manager- Great. Let's work on that schedule together, I will look at the mop situation and we can discuss again in a few weeks.

John- Awesome thank you!

Do you see how that conversation started on a positive note, let to the employee answering his own questions and working toward the common goal? It would have been a completely different conversation and tone, had the manager come in with "John, you are too slow, and you need to get 20% more work done on your shifts than you currently are. What are you going to do about that?". We ended with the exact same outcome, improving performance, but in a positive way.

Of course this isn't always possible, but if we begin by looking at the effort put in, the abilities of the employee and the clarity of how tasks are defined, we can determine job performance. If you have an employee, who after many positive reviews and coaching from managers or supervisors, is still not working up to potential, it is necessary to look at other evaluation and feedback options.

Graphic rating scales and checklists can be used, which rate an employee on a scale for things like output, job knowledge and attitude. These may be less effective, as they immediately put an employee on the defensive for a poor rating. They may however be needed in certain situations where a more positive approach is not working well or you are receiving complaints from other employees.

So do evaluations often, begin with asking the employee how they feel they are doing and how the company or manager may help them complete their job more efficiently. Offer positive feedback and guidance along with a coaching mentality to help employees improve performance.

REWARDS AND COMPENSATION PLANS

You have a bunch of GREAT employees at your business, and you would love to compensate them for all of their hard work and commitment to the company. Not all compensation needs to be financial. Employees need a variety of rewards and compensation to feel valued and appreciated in their work!

Financial rewards, such as a pay increase is the most obvious form of additional compensation, but such an increase isn't always the best way to compensate employees.

Non-financial rewards might include:

1. Additional personal time off
2. Training opportunities
3. Personal perks, like a certificate for a round of golf, or a massage
4. Onsite massage once a week.
5. Onsite fitness center or yoga classes
6. Flexible hours (if this works with your business)
7. "Day off" passes
8. Awesome parking

There are many options for direct and indirect compensation.Check out Creative compensation for ways to compensate in an agricultural setting, which can be relayed to the retail business or any other business!

The key is to think outside the box, ask questions of your employees, and make sure they know how much you appreciate the work they do! Retail can be difficult to pay high wages, but there are so many other ways to make sure your employees know that you care. A positive work environment with some fun thrown in can be a huge way to keep employees happy! People are willing to work for a little less money, if the perks are awesome!

https://www.entrepreneur.com/article/224249

https://smallbusiness.americanexpress.com/ca/en/big-ideas-for-small-business/employee-retention-and-engagement/101-ways-to-reward-employees-without-giving-them-cash

STRONG LEADER QUALITIES

Retail leaders can wear a ton of hats on any given day. A grocery store manager may be stocking shelves, or checking out customers. You might find the manager of a small clothing store putting away clothes from the dressing rooms or cleaning the toilets. Even with all of the tasks to do daily, there are some clear qualities that are common among really great managers.

1. Provides training and instruction to employees.
2. Motivates, praises, rewards AND offers constructive criticism.
3. Leads by example
4. Has awesome communication skills
5. Seeks information and opinions from everyone on the team, using this information to make decisions.
6. While making efforts to achieve the stores goals, the manager also makes sure everyone is satisfied in their work and work well together.

Transformational leadership involves helping employees to work to the betterment of the group. This can be a helpful style when a manager is trying to turn around a poor-performing business. The manager may try to generate excitement to get the employees on board for change and growing the business!

There are situations for various styles of leadership in different situations. An effective manager knows when to use the autocratic style (makes the decision) and the democratic style (engages the team before deciding).

https://youtu.be/yW0CmRqRI9o

http://smallbusiness.chron.com/role-team-leader-retail-17324.html

http://cottoncandyfshn.com/great-retail-leaders-do-these-things-every-day/

INTRODUCTION TO OPERATING FUNCTIONS

You walk into your store on Monday afternoon, and there are three employees looking for something to do (or worse, checking their Facebook profiles on their smartphones!). This is a typical occurrence on Monday afternoons, but what can you do? The employees all need their hours, so you are not sure how to schedule for the most effective use of labor hours. What can you do?

Margins can be slim in retail sales. By effectively scheduling your employees, minimizing inventory shrinkage and keeping the store clean and organized, you, as a manager, can help to keep your retail store operating effectively with streamlined costs.

EMPLOYEE SCHEDULING

Employee scheduling can be a tricky task. All employees have different needs and skills. Your retail operation also has different needs during different times of the day. It can be a challenge to coordinate the two. Depending on the type of retail establishment you are scheduling for, there are some tricks to creating the most economic schedule you can while keeping employees and customers happy.

Let's say you are scheduling for a restaurant. If you operate from 7am to 9pm, there will be times of the day when you are busy, and times when you are not. The breakfast, lunch and dinner rushes will obviously need more coverage, but how do you cover those times while still maintaining happy employees?

1. Know your employees- this includes knowing their skills, strengths and weaknesses to make sure the shift runs smoothly. Don't have three dishwashers, one cook and no prep folks on a restaurant shift, or three sales clerks and no managers on a retail store shift (especially if none of the clerks have access to void a sale or accept a return!).
2. Build shifts around your star employees- if you have a few folks who you know can run the show, build a shift around them. This may include personality type, making sure you have someone outgoing covering the front of the house or someone who is meticulous covering the kitchen. Also insure that you have people with the right certifications on each shift. An example here might be insuring that you have a kitchen manager on each shift if it is a requirement of your licensing.
3. Have a way for the employees to communicate with each other- a text list or a messenger app is the best way with the prevalence of smartphones. Have a way for employees to message others if they need a replacement or would like to trade shifts. Requiring employees to find their own substitutes for rescheduling will save you time as well.
4. Get the schedule out in a timely manner- employees can plan better if the schedule is out early. The best is if you can have it out two weeks before the end of the current schedule. This allows employees time to reschedule any personal commitments or trade shift.

5. As much as possible, make sure to honor time off requests and work preferences- this isn't always possible, but it does help to increase employee satisfaction and keep good employees! It can be a huge time consumer for the scheduler though, so keeping some type of document or cloud based system will work best for this task.
6. You could shift the responsibility to employees- schedule one or two of your best employees on each shift, and then give everyone access to the incomplete schedule and let them fill in when they want to work. NOTE: this will not work for all businesses, but if you have one where it will work, it will save you a ton of time.
7. Have a list of part-time available employees for those inevitable times when there is an emergency or you need someone quickly.

There will always be challenges in the scheduling process. This may be especially true when you are a new manager. Keep notes, make it as automated as possible with a good cloud based scheduling system and continue every scheduling cycle to streamline your processes. It becomes easier over time, but make sure to keep improving the process.

https://articles.bplans.com/5-ways-to-make-employee-scheduling-easy/

https://getsling.com/blog/work-schedule/

STORE MAINTENANCE

Everyday the floors need to be mopped, the shelves dusted and the bathrooms cleaned. Regardless of the type of retail outlet you manage, these things are ongoing and very needed tasks. The cash registers may need to be opened at the beginning of a shift and totalled at the end of the shift. Doors unlocked and locked and food may need to be covered and stored. How can you make these tasks happen on autopilot?

Checklists are the key here. Insuring that all of these tasks get done on a daily, weekly or monthly basis require proper planning. There needs to be an opening and closing checklist available for all staff, and each shift should know what is required of them. The checklist will vary depending on your industry, but let's look at a few examples:

A general checklist for a retail location:

https://www.process.st/checklist/daily-store-opening-checklist/

Here is one for a computer store:

http://boundarycomputer.com/forms/open-close.pdf

Here is Ace Hardware's opening and closing checklist:

http://mvluni.com/manager/Store%20Operations/Opening%20&%20Closing%20Procedures/openclose.htm

Restaurants have a whole different level of challenge when it comes to opening and closing procedures, and it is independent for each one. A chain restaurant will have different requirements from a small one location restaurant.

If all employees have a part in the general opening, closing and maintenance of a retail store, the store will stay clean and running properly.

REDUCING INVENTORY SHRINKAGE

A routine check of your wine inventory is showing a discrepancy. Your store takes a full monthly inventory, with periodic audits of the quantities. You had noticed some issues with last month's full inventory, so decided to up your checks this month. What might the reasons be for such a discrepancy? What is inventory shrinkage?

https://youtu.be/SGTgKn-yHg0

Well, in the case of a wine issue, it could be several things. There might be a bartender pouring more than a standard glass for each serving. This could simply be a training issue. There could also be theft going on, either employee theft or customer theft. This situation may require monitoring, a different way to store your opened wine or could even require terminating an employee. It may also be a counting error. Perhaps wine by the glass is being rung up incorrectly in the cash register. This could cause you to show more of one wine and less of another! This again, may be a training issue, or it might be a sign to clarify how items are entered into the sales system.

https://youtu.be/z6qkyU9yg3U

Whatever the reason, it is important to get to the bottom of inventory shrinkage related issues. Let's look at another example. You run a small retail clothing store with an online component. Items are sold from your storefront or from your website. The sale is recorded, and removed from inventory. But your count comes back and you are short ten of one of your best selling shirts! So if you are sure, after reviewing sales, recounting the shirts and checking any area that may not have been counted yet, that you are indeed short by ten shirts, what do you do next?

1. Train your employees well, to insure that they know how to receive inventory, stock it, and reduce inventory through your sales system. Proper training can go a long way!
2. Tighten security a bit. If this is a one time problem, secure back stock and only give access to certain employees or install a camera in the area. If this doesn't help, you may need to tighten security a lot!
3. Keep an employee on the sales floor at all times if you think it may be customer theft. Were the shirts in back stock or were they on the floor when they went missing?
4. Have certain employees who accept incoming shipments and verify outgoing shipments.
5. Review purchase orders to insure that the order was indeed placed, and the items were received and entered into inventory.
6. Count and recount!

Reducing shrinkage will help you to net more income! It is important to insure that employees understand the systems and that you have proper systems in place for recording inventory, recording the sale of inventory and managing your inventory.!

http://smallbusiness.chron.com/reduce-inventory-shrinkage-19240.html

https://smartwerksusa.com/articles/4-ways-to-prevent-inventory-shrinkage-in-retail/

PUTTING IT TOGETHER: RETAIL OPERATIONS AND MANAGING THE STORE

So human resources is a huge part of the retail business landscape. From screening potential employees, interviewing, hiring and training, each step of the process requires skill and planning.

New employees must be onboarded effectively to feel comfortable in their new role. Then continued training to maintain and improve skills must be organized, tracked and implemented. Employees make a retail business what it is! Service is the key, and excellent staff give great service.

MODULE 11: MERCHANDISE MANAGEMENT

WHY IT MATTERS: MERCHANDISE MANAGEMENT

You are the buyer of Mens activewear at Dick's Sporting Goods It is high-demand job as you are constantly chasing the biggest trends and working with your suppliers to ensure the inventory is delivered at the right time to your stores. You are facing increased pressure from discounters such as Walmart and Target on the low-end, regional department stores such as Macy's, Dillards and Nordstrom on the high-end, national brand outlet stores from Nike, Adidas and Asics, and specialty stores like Lulumon and Foot Locker. You and your team are managing roughly $350M in existing inventory- trying to shift more dollars to best sellers and reduce liability in slower selling items. At the same time, you are working on your seasonal plans for next year where the company has tasked each department for a .5% increase in profit margin from improved inventory productivity. ~~You have been asked to develop a presentation on how profitability and inventory productivity are key drivers to success in your business. You have never really thought about it so you take a moment to consider all of the factors before beginning work on your presentation. We will revisit this later but~~ What is the common denominator to success in this season's performance and next season's plans? Let's discuss a few key concepts as we begin this module.

What do you believe to be one of the most expensive costs to the retailer in today's retail environment? If your response was INVENTORY you are correct! It has the most significant impact on the retail business and it also is one of the more important financial assets to any business. Overall, effectively managing merchandise has several positive as well as negative implications that can lead to either success or failure of the retailer.

Several factors influence merchandise management including a retailer's size, consumer shopping behavior, and the individual functions of each member of the merchandising team from buyer to planner.

INTRODUCTION TO MERCHANDISE PLANNING

AND MANAGEMENT

What You Will Learn: Merchandise Management and Planning are an essential part of successful apparel retailers. Here are a few statistics to consider regarding the size of the apparel market on a global level.

In total the global apparel market is approximately $3 billion dollars, 2% of the world's GDP (Gross Domestic Product. How does that break down into categories within the global apparel market?

Womenswear: $621 billion

Menswear: $402 billion

Childrenswear: $186 billion

Sports Footwear: $90 billion

Bridalwear: $57 billion

Luxury Goods: $339 billion

In this module we will explore the important characteristics of Merchandise Management that support this $3B industry.

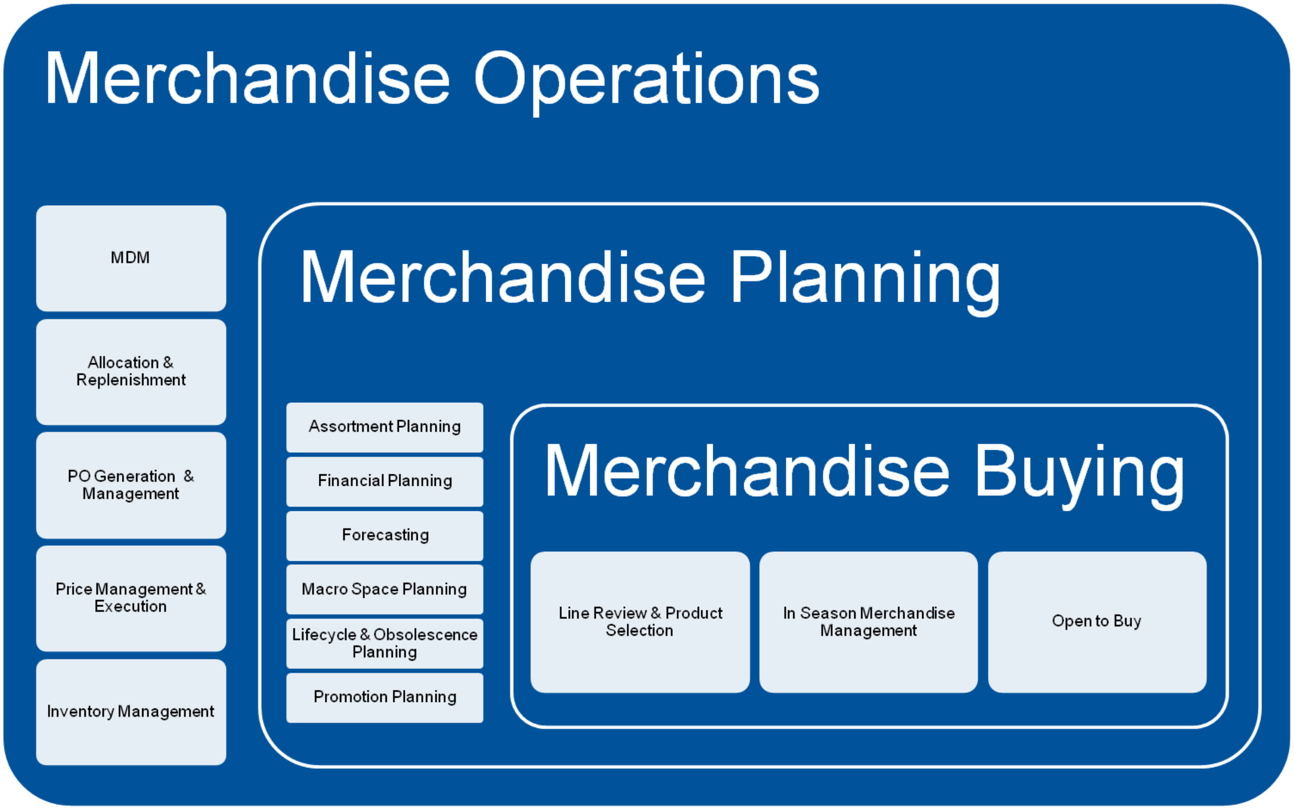
MERCHANDISE MANAGEMENT

Merchandise Management involves understanding and evaluating the consumer's buying habits to effectively source, plan, display, and stock merchandise. It is a process from beginning (strategy) to end (performance evaluation) that is cyclical in nature and involves individuals at every level of the retail organization. We

discussed some of those key roles and opportunities in retail in the first chapter and you most likely thought about where you would and wouldn't be an ideal fit.

RETAIL BUYING ORGANIZATIONS

What are the characteristics and functions performed within the retail buying organization? As you think about the sheer size and the value of each individual industry within the global apparel market, imagine how many functions are performed due to all of the individual contributions.



Retail organization merchandise management functions can be categorized into three main areas: *Merchandise Operations, Merchandise Planning, and Merchandise Buying*. Keep in mind that not every retailer is national in scope and would have a division of labor with separate departments and even separate individuals performing these functions. Also keep in mind that there are other supporting functions in accounting, marketing, and human resources within retail organizations. However, the functions referenced above support the merchandise management process which many believe to be the heart of the retail business.

Merchandise Buying

Merchandise Buying involves sourcing goods from vendors and wholesalers at the best possible cost to achieve maximum profitability. Merchandise Buying and Planning work hand in hand as the buyer must understand the merchandise financial plan and what products will drive sales in that category. A buyer must be fiscally responsible ensuring they are purchasing goods in line with their seasonal plans (prior to the season) and the Open to Buy (in-season). The Open to Buy calculates how much they have to spend based on the financial sales and inventory plan.

The buyer must also understand the strategy of the company as well as how their category fits in line with that strategy. To understand the customer they must also understand the trends driving the industry. Part of the merchandise buying process is attending trade shows to select meaningful product and also conducting line reviews to present the product to the team.

Lastly, one of the key roles of merchandise buying is in-season management of the business. Managing the business is essential as oftentimes sales will vary from what was initially planned. Sales might increase or decrease beyond original estimates. Inventory levels must be adjusted accordingly. For example, if you are a buyer summer shorts and sales are better then expected you would want to try to accelerate merchandise deliveries as early as possible to minimize markdowns. Managing the business in-season becomes especially important during peak timeframes as the opportunity to procure more inventory might not be possible. At the same time, if merchandise isn't selling as anticipated the merchandise buyer must have a contingency plan to either promote the product, return to the vendor (if possible), or any other options that might be available.

Merchandise Planning

The overall goal in merchandise planning is to maximize profitability by limiting markdowns and achieving and exceeding sales targets while also limiting excessive inventory.

Typically the merchandise planner will plan pre-season utilizing history from last year to build the six month plan that is typically either Fall or Spring. Pre-season planning accounts for any shifts in the business such as major holidays and any missed sales opportunities. For example, if the weather was unseasonably warm in the winter months and sales were missed or didn't come until much later they would want to keep accurate history to make sure they aren't planning this in future fall seasons.

The process involves forecasting sales which might be from a bottoms-up or tops-down approach. In the bottoms-up approach the merchandise planner will work on the plans based on what they know about individual store performance to come up with sales and inventory goals. The Tops-down approach involves the executive team providing each individual department with sales plan goals. Oftentimes both approaches are combined to arrive at the most realistic planning goals.

Another function of merchandise planning is to assist in assortment planning, which is determining how many styles (breadth) and in what quantities (depth) should be carried in each merchandise category. In addition, merchandise planning is responsible for individual store inventory levels as they break down plans to regions and store units. This is known as merchandise allocation. We will discuss specific merchandise allocation options and strategies in a future module.

Some questions to consider in assortment planning are: What SKUs will drive profitability? What items are essential to strategy of business? How does your assortment compare to competition? How original are the items within your assortment and how much is duplication?

Merchandise Operations

Merchandise Operations can be thought of as those functions that support merchandise planning and buying and, ultimately, the overall retail planning strategy. While allocation and replenishment are often referred to as the same thing, they are quite different. A replenishment strategy is the process of ordering inventory on an ongoing basis to maintain preset inventory levels. This is often basic inventory such as underwear and socks that are predictable and do not go out of style. Often times the retailer will set min and max levels to set the amount of inventory each store will receive. ~~Conversely, allocation involves how many units will be sold of a specific item over a certain time period. This is often associated with fashion inventory in which there is a limited quantity.~~ [I don't think that is correct].

Purchase Orders are generated and managed via the merchandise operations team as well. They work hand in hand with both the buying and planning team to ensure orders are shipped by the vendor and received at the warehouse. Lastly, they manage all pricing execution functions such as changing prices associated with markdowns, re-pricing, and all promotional pricing that needs to be entered into the POS system for accurate store transactions.

Take a look at the following video which gives you insight into how both buying and planning functions operate as one global unit for Lululemon. This is especially important as you consider those businesses, such as Lululemon, with operations all over the world. As you watch this video consider how buying and planning functions work together to achieve one vision and strategy.

Watch this video online: https://www.youtube.com/embed/f2TcW3d0UEU?feature=oembed

MERCHANDISE BUYING SYSTEMS

Staple and Fashion Merchandising Systems

As we end this module our last discussion will focus on the differences between **staple and fashion merchandising systems**. We can think of staple merchandise as those items that are basic and essential. Remember the example above regarding replenishment items? These are basic items that don't change in seasonality or fashion. If you look at the definitions below – predictable demand, accurate forecasts, and continuous replenishment – you can probably think of a few items you have in your own closet that fit this category whether it is socks, underwear, and even basic ribbon bows. For a grocery store, staple items might be bread, butter, eggs, and milk. Retailers will often carry what is known as safety stock or back-up stock for staple inventory. Some retailers will provide long-term forecasts (up to a year) to vendors to help them understand future forecast needs and plan production accordingly. Typically staple merchandise is controlled by a continuous replenishment buying system.

Fashion Merchandise is often difficult to forecast as it is seasonal in nature and has unpredictable demand. The demand for these items can differ based on factors that may or may not be controllable, such as weather or changes in consumer tastes. There might be limited selling history on these items and to understand how much inventory to invest, retailers will sometimes have to extrapolate a sales estimate from a like item from prior years. It is both a science and an art to buy fashion merchandise in just the right quantity to maximize sales and prevent excessive inventory which will lead to unprofitable markdowns. Most retailers rely on an Open-To-Buy system to control fashion and seasonal merchandise. We will discuss this in more detail in an upcoming section.

Both staple and fashion merchandise is planned in the overall merchandise budget plan and sometimes in separate buckets. A retailer must understand what percentage of the business is generated by both staple and fashion merchandise to fulfill the plan for the entire season.

INTRODUCTION TO THE MERCHANDISE PLANNING PROCESS

What You Will Learn: Imagine you are a Merchandise Planner for a large department store chain and you have been asked to help prepare the plans for the upcoming fall season. How will you assist the buyers in developing their buying plan? Where to start?

You would probably start with a sales forecast by month for the 6-month season. What criteria would you use to confidently predict what those revenue numbers would be? Next, you will need to establish appropriate inventory levels necessary to achieve those sales, support promotions, and stock store presentation of your products. Finally, you would need to determine your end-of-period (EOP) inventory to transition to the following season.

In this section we will review the methods retailers use to develop these plans to maximize sales and minimize markdowns.

FORECASTING SALES NUMBERS

How do retailers forecast sales numbers for merchandise categories?

One of the concepts we discussed in the previous module in the merchandise planning process was forecasting sales. The retail planning process begins with a sales plan. Besides sales history and statistics, you need to have an understanding of your overall business in order to plan increases or decreases which will then dictate proper inventory leve ls.

Forecasting is also important for a few vital functions within the organization such as human resources, marketing, product management, and operations. It is especially important to product management and operations as they need to understand how much product to produce and warehouse capacity needs!

The merchandise planner helps determine a sales plan based on data from the previous season and the desired sales goals that fall in line with the company strategy. For example, if I am the merchandise planner for women's swimwear I might decide to plan sales with an increase of 10% over the prior year because I missed sales the previous season and the industry forecasters predict it will be a strong swimwear season. In addition, I might feel my assortment is even more compelling then last year for a number of reasons including better sizing and more desirable styling based on customer feedback.

We must also consider those external factors that influence how we forecast our sales numbers. Every year the National Retail Federation provides an annual economic forecast to help guide the industry of the impact that the external environment is expected to have. Take a look at the video below to understand how those factors influence the industry. As you watch the video consider how the stock market, gas prices, consumer spending, the job market, wage growth, and debt plays a role. Would you say any of these factors are more important the other and which of these impact your decision to spend?

Consider what higher gas prices and a declining job market might mean for retailers that carry luxury items such as expensive handbags and shoes? In a down economy you might find that consumers spend more on basic staple items.

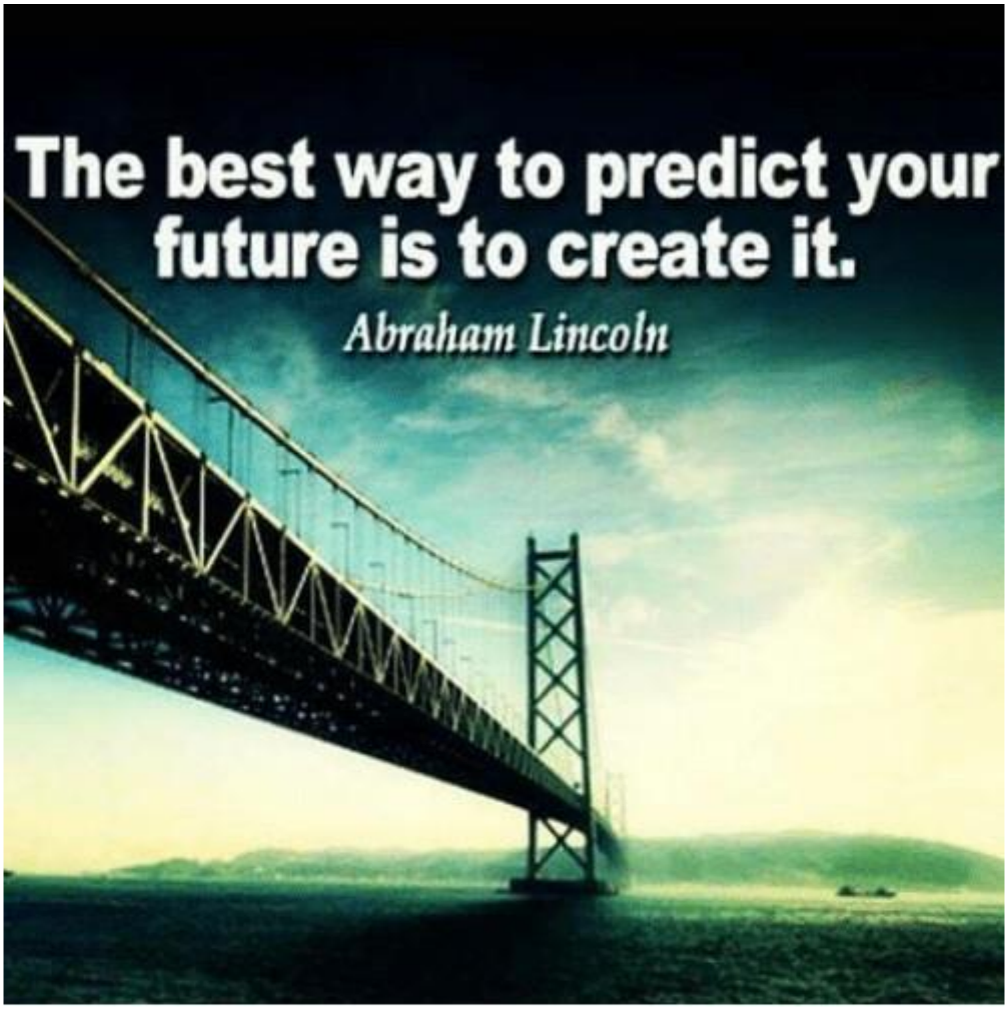
Some categories of business aren't affected by a downturn in the economy. For example, the beauty industry doesn't typically see decreased sales patterns during these times. Since the Great Depression the beauty industry has seen sales growth during hard economic times. Why do you believe this is the case? Studies have shown women want to feel good about themselves at all times so they will continue to spend on these "luxury" products that are more like a necessity. So although money might be extremely limited during these times there is always room in a woman's wallet for those products that will enhance beauty!

We can also look at specific retailers that emerge during tough economic times. Wal-Mart is a great example as their net income rose from 2008-2010 after the financial crisis and subprime mortgage. By offering a vast assortment of core products at value prices they were able to achieve sales growth.

Can you think of any other categories or retailers that aren't impacted by a down trending economy? Why? How does this impact the decisions the retailer makes?

Watch this video online: https://www.youtube.com/embed/-lMtb_rbBJE?feature=oembed

MERCHANDISE ASSORTMENT OPTIONS



As we began this chapter we discussed the merchandise management process. You might remember we discussed assortment planning as a key function of merchandise planning. As the seasonal plan evolves, inventory dollars are broken down into categories and further down to specific items. This part of the process is known as assortment planning.

Some key questions that drive assortment planning are:

What SKUs will drive profitability?

What key items are essential to your business?

How does your assortment compare to competition?

How original are the items within your assortment and how much is duplication?

As you reference the diagram below you can clearly see all the elements that are central to the assortment planning process. Let’s now take a look at the merchandise assortment options available to retailers.

Let's talk about the What, Why, and How of Assortment Planning.

What: Assortment Planning is the process of determining product in each merchandise category.

Why: Retailers increase sales, productivity (turnover), and margin while also improving customer satisfaction.

How: By identifying store level opportunities as well as how much (breadth of assortment) and in what quantities (depth of assortment) should be carried in a merchandise category.

Assortment Planning Considerations

Before beginning the assortment planning process there are several key considerations.

What is the merchandise capacity of the stores?

Will store capacity fit all of the assortment options I am planning? This can be a little tricky for those chains that have different prototypes across the store base. Another key responsibility of Merchandise Planning is to rank stores by sales performance and other factors to determine their assortment level. All stores might not receive every item in your assortment.

Is there a need for complementary merchandise to service the customer?

If you carry laptops should you carry laptop cases as well? Think about servicing your customer needs completely. If they don't get it from your store they can go to another store which means you lose sales in this case. At the same time if the customer knows you don't carry the complementary merchandise they are less likely to visit your store in the future

Is this merchandise profitable?

Before determining if you should carry the item, you need to understand your complete assortment, your margin goals, and the needs of your consumer. You will probably have both low and high margin-producing items in your assortment to service the customer. The mix of both low and high margin producing items might still put you in line with your overall profitability goals. In addition, if you aren't meeting margin goals on certain items this might be an indication that you need to work with the vendor to reduce the cost of the item.

What are the corporate objectives and does the merchandise align with the strategy and goals of the company and department?

You always want to ensure the goals of your department are in line with the total company strategy. Different retailers will stand for different things: exclusive products, lowest prices to beat competition, designer goods, highest quality products, etc.

What are the regional needs for the area in which I am planning the assortment?

If you work for a retailer with multiple locations across the United States and even the globe this becomes especially important. For example, Florida is a resort area where people often vacation. If you have stores in this area you might consider carrying an extensive assortment of resort-like product such as swimsuits, flip flops, and sunglasses. In addition, if you have stores near any theme parks such as Disney World or Six Flags you might want to carry themed product and other quick travel accessory items such as tote bags. You might even be able to hold a competitive advantage here because those items could be more expensive at the park.

As we wrap of this section of the chapter let's take a look at a specific example of an assortment plan for missy collection tops. In this plan you can see the sales dollars, receipts, anticipated sell-through, ending inventory dollars and gross margin planned. You can also see the sales and receipt mix percentages.

For example, the first item under Women's Tees (2Fox V Bookclub) is 65.54% GM%, 7.99% of the sales and 7.9% of the receipts. What changes would you make based on what you see below? Take a look at 2Hurl Cornerstone. Notice anything about that item you would change? If you said you would plan less receipts you are correct! That item is 11.98% of the sales, 12.91% of the receipts, and 11.46% of the gross margin dollars. It has more receipts planned than sales and is producing less gross margin dollars. You might consider decreasing the amount of receipts of this item.

In the lower section of the assortment plan you can see the plan numbers broken out by average store for the assortment. In looking at this plan, you can see how the retailer has developed sales, inventory and purchase levels across the entire organization-broken down by style- and if the assortment makes sense at store level. Notice the level of detail in how the assortment plan applies key metrics to each and every style in the assortment.

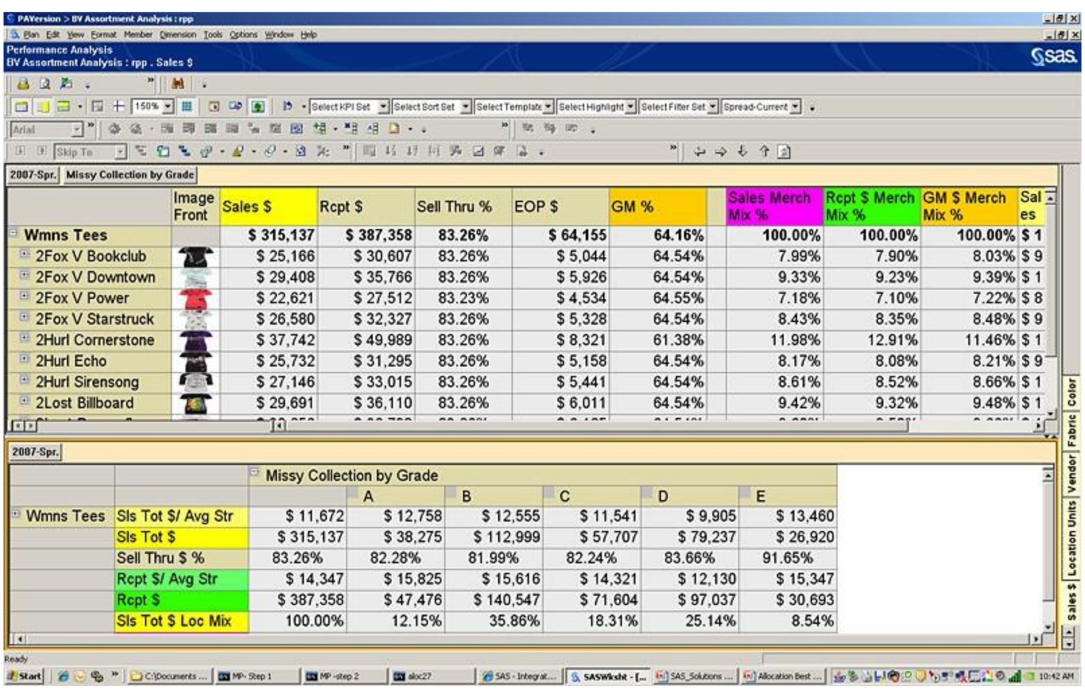


	Image Front	Sales $	Rcpt $	Sell Thru %	EOP $	GM %	Sales Merch Mix %	Rcpt $ Merch Mix %	GM $ Merch Mix %	Sales
Wmns Tees		$ 315,137	$ 387,358	83.26%	$ 64,155	64.16%	100.00%	100.00%	100.00%	$ 1
2Fox V Bookclub		$ 25,166	$ 30,607	83.26%	$ 5,044	64.54%	7.99%	7.90%	8.03%	$ 9
2Fox V Downtown		$ 29,408	$ 35,766	83.26%	$ 5,926	64.54%	9.33%	9.23%	9.39%	$ 1
2Fox V Power		$ 22,621	$ 27,512	83.23%	$ 4,534	64.55%	7.18%	7.10%	7.22%	$ 8
2Fox V Starstruck		$ 26,580	$ 32,327	83.26%	$ 5,328	64.54%	8.43%	8.35%	8.48%	$ 9
2Hurl Cornerstone		$ 37,742	$ 49,989	83.26%	$ 8,321	61.38%	11.98%	12.91%	11.46%	$ 1
2Hurl Echo		$ 25,732	$ 31,295	83.26%	$ 5,158	64.54%	8.17%	8.08%	8.21%	$ 9
2Hurl Sirensong		$ 27,146	$ 33,015	83.26%	$ 5,441	64.54%	8.61%	8.52%	8.66%	$ 1
2Lost Billboard		$ 29,691	$ 36,110	83.26%	$ 6,011	64.54%	9.42%	9.32%	9.48%	$ 1

2007-Spr.

		Missy Collection by Grade	A	B	C	D	E
Wmns Tees	Sls Tot $/ Avg Str	$ 11,672	$ 12,758	$ 12,555	$ 11,541	$ 9,905	$ 13,460
	Sls Tot $	$ 315,137	$ 38,275	$ 112,999	$ 57,707	$ 79,237	$ 26,920
	Sell Thru $ %	83.26%	82.28%	81.99%	82.24%	83.66%	91.65%
	Rcpt $/ Avg Str	$ 14,347	$ 15,825	$ 15,616	$ 14,321	$ 12,130	$ 15,347
	Rcpt $	$ 387,358	$ 47,476	$ 140,547	$ 71,604	$ 97,037	$ 30,693
	Sls Tot $ Loc Mix	100.00%	12.15%	35.86%	18.31%	25.14%	8.54%

INVENTORY LEVELS

As we start this section on inventory planning here is a brief video on Inventory Planning in Apparel. In this video Will Weidman, SVP of Apparel Retail will discuss why proper inventory planning is challenging as well as some approaches to take on inventory levels in specific stores.

Watch this video online: https://www.youtube.com/embed/Mz3kL0Qgyos?feature=oembed

Let's discuss some important characteristics of how retailers determine appropriate inventory levels.

Meet Customer Demand

If you don't effectively plan your inventory levels you won't have an understanding of your potential sales given peaks and valleys within the business to meet customer demand. Those peaks and valleys depend on the type of retailer, the seasonality of the product, and the promotional environment. Valentine's Day product is a great example. There is a relatively short time frame in which any retailer can sell this product category. After February 14th it is likely that the customer will no longer want the products and you will have to markdown any remaining liability to get out of it quickly. Furthermore, if you don't order adequate amounts of inventory for your shelves prior to the holiday you might miss sales. Imagine the impact this has on an area that only has seasonal product for holidays such as Valentine's Day -they could potentially miss the sales plan for an entire year!

Lead Time

Every retailer has to factor replenishment lead times in their inventory plans. Lead times can vary from two weeks to six months or more. Order lead time is the time from the placement of the order with a vendor to when the product arrives at the retailer store or warehouse. Domestic product generally has a shorter lead time while product produced overseas have longer lead times. Depending on the area of business this is a key consideration for product that sells out quickly. It might be a good idea to keep warehouse inventory reserve for those items to replenish back to stores that sell out of product.

Higher Profit

Sourcing and managing inventory has a direct effect on profitability. A retailer is able to increase profitability if they can control inventory levels. Ignoring a proper inventory system in production, sales, and trade will hinder operational efficiency. If a retailer plans inventory levels in line with customer demand they are able to realize less potential markdowns as they will sell thru the merchandise at a reasonable rate. While it isn't possible to meet sales objectives 100% of the time there must be a contingency plan in place. Sometimes it is better to markdown product as quickly as possible when it is determined sales objectives won't be reached to mitigate even more potential risk. In other words, the longer the retailer waits to reduce the price of a slow seller the deeper the discount will need to be.

Better Cash Flow

Policies and procedures for effectively planning inventory levels enable companies to maintain inventory flow, account for inventory value, and handle aged inventory. These are all policies that will enable the company to achieve sales goals and objectives. As a result the retailer is better able to manage cash flow. Why is cash flow important? You might have heard the expression "Cash is King!". Excellent cash flow works the same way in business that it does for any individual. It allows the retailer to be in a more stable position with regards to spending and buying power. Having cash flow enables any business to generate and use cash. It also allows the retailer to pay any future debts.

For the final segment of this module we will explore the statistical methods the retailer uses to plan inventory levels. These are: forward weeks of supply, weeks of supply, stock-to-sales ratio, sell-through percent, basic stock, and turnover.

Forward Weeks of Supply

An important goal of inventory planning is having enough inventory on hand for the sales planned until the next delivery arrives. This calculation is at the week level and is calculated as the number of weeks of planned sales from the next week forward that current inventory value represents. Using forward weeks of supply is a good metric to make informed merchandise decisions. It gives good insight as to how the product and category will contribute to overall sales and inventory. However, one key disadvantage of forward weeks of supply is it is calculated at a weekly level which doesn't allow for a higher level top-down approach.

Weeks of Supply

Weeks of supply simply looks at past trend versus any future sales projections. Weeks of supply is calculated as the inventory position for a given period divided by the average sales for that same time frame. One huge disadvantage of weeks of supply is it looks at past sales trend to calculate inventory and not future time periods. It shows you where you have been but not where you are going. This is especially important for those businesses and time periods that have huge sales increases. For example, Easter is a time period in which the sales are typically higher. If you calculate weeks of supply during those time frames it would be much lower than an average time period which would, in effect, make it seem as if you have much lower inventory levels based on weeks of supply. The retailer must always take into account the time period when using this method.

Stock-to-Sales Ratio

This is an appropriate measure for planning at the monthly level and is calculated by dividing sales at the beginning of period into inventory for that same time period. Stock to sales ratio provides the retailer with an estimated annual turn. However, this measure only looks at one distinct time period and fails to look at the trend over time.

Sell Thru Percent

Sell thru is one of the most common metrics for retailers to understand performance and inventory levels. It represents the ratio of sales to beginning inventory. It is calculated by dividing sales by beginning inventory. This metric, like stock-to-sales ratio, looks at sales in relation to inventory for one period of time as opposed to a longer time period. However, it is useful for understanding performance as well as possible inventory needs. For example, if Product A has a sell thru of 10% and the average for the department is 3%, that is an indication that you need to procure more inventory for Product A to maximize sales potential.

Turnover

This metric indicates the number of times inventory is sold and replaced over a given period of time. This is usually calculated at the annual or seasonal level by dividing period sales by the average inventory value. Turnover isn't as effective an inventory method for calculating inventory needs for a short period of time as it is measured over a longer period of time. However, inventory turnover is a key metric that underlies the retail profit formula.

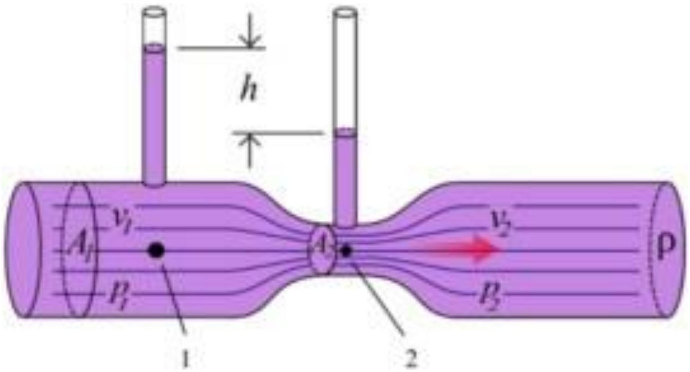
Basic Stock

Basic stock inventory planning involves establishing a baseline level of inventory for a given time period. This is a threshold that inventory levels should never fall below. It is calculated as average inventory divided by average sales. This method of planning inventory levels is useful for retailers with consistent-selling items that are not subject to large fluctuations. However, this is not a good method for planning seasonal categories or trend categories where sales are hard to predict. The Basic stock metric is an ideal inventory planning method for replenishment businesses at the SKU (Stock keeping unit) level.

MERCHANDISE FLOW

LEARNING OUTCOME

- Outline a system for controlling merchandise flow



The most important goal of any buyer is to achieve their sales plan. The second most important priority is to keep inventory levels on plan. If you exceed or fall short of your sales plan, the only adjustment you can make to keep your inventory in line is to adjust the flow of incoming merchandise. If you exceed your sales plan, you must accelerate your flow of goods. If you miss your sales plan, you must reduce your merchandise flow. That said, it is not as simple as it looks.

To begin our discussion of controlling merchandise flow, we have to understand how merchandise is procured by retailers vis-à-vis the annual and seasonal planning and in-season merchandise management process. Let us return to our previous scenario where we are in the role of buyer for a national sporting goods and apparel chain.

We have completed our annual and seasonal sales and merchandise plans and are now ready to begin the procurement process to source the goods needed to execute those plans. In general, purchase commitments are made by buyers based on lead times- a concept we introduced in an earlier section. We might begin by working with our internal product production organization on our in-house label line of goods. Typically, these will be designed and sourced by this internal organization and will have the longest lead time.

Next, we would work with our branded suppliers (Nike, Adidas, etc.) to commit for those purchases for the upcoming season. Finally, we would complete our purchases for the upcoming season by filling in our assortment with other domestic vendors' products.

Now that purchase commitments have been made by our national sporting goods and apparel buyer, we enter the planned selling season. This is where the concept of controlling inventory flow is crucial to a retailer's success. How does the buyer now control that merchandise flow to keep the inventories on plan as sales occur? There are two primary systems for doing so: Supply Chain Management (SCM) and Open-To-Buy (OTB).

We discussed the concept of SCM in an earlier section- a system where the retailer partners with vendors to control all aspects of product production to deliver goods to the retailer as planned. Since SCM systems are controlling production and transportation of product, it is possible to utilize the system to increase or decrease the flow of goods to the retailer. However, keep in mind that due to the longer lead times and overall complexity of a SCM system, there is less flexibility to make large adjustments on the fly short-term.

Using OTB is the primary means retailers use to control the flow of goods in the selling season. Here is a simple Open-To-Buy Formula:

B.O.P Inventory

– Sales

-Markdowns

-E.O.P Inventory Plan

= Open-To-Buy

So let's plug in some values to see how the formula works: Assume we start with a Beginning of Period (B.O.P) inventory of $500,000.00. We experience sales of $100,000.00, markdowns of $25,000.00, and our inventory target for the End of Period (E.O.P) is $600,000.00. What would be our OTB?

$500k (BOP)

-$100k (Sales)

-$25k (Markdowns)

-$600k (EOP)

=$225k (OTB)

In this example we see an OTB of $225k (using this formula will yield a negative number but we retailers use absolute value to keep the OTB a positive integer). To double-check your math, you can plug the OTB into the calculation as "Purchases" to ensure you are hitting your EOP target:

$500k (BOP)

-$100k (Sales)

-$25k (Markdowns)

+$225k (Purchases)

= $600k (EOP Inventory)

Keep in mind that these methods will vary depending on retail organization size, sophistication, business goals, strategies and category of goods.

MERCHANDISE ALLOCATIONS

LEARNING OUTCOME

- Decide how retailers decide on merchandise allocations.

Merchandise allocation is the process of determining how to distribute merchandise to individual store units for maximum sales and minimal markdowns. Depending on the size and sophistication of the retail operation, this can be a simple process, or an extremely complex algorithmic exercise. Some retailers plan their season's purchases from the ground up based on ideal store allocation, or others use the allocation process to break down merchandise receipts to allocate to online warehouse distribution, regional distribution centers or direct to stores.

In additional to the math of the process, there are strategic and tactical considerations for merchandise allocation as well. Stores in their "grand opening" phase will receive maximum merchandise allocation to both make an impact to new customers and to help determine the sales potential of the new store unit for future allocation accuracy. Allocation can also be influenced by a competitive strategy where a retailer is attempting to make a "show of strength" with wide assortments and deep quantities for a more favorable impression when compared their competitors inventory position.

As you would imagine, commercial software applications have been developed to assist retailers in the computational-heavy process of merchandise allocation. Vendors such as JustEnough, RELEX, Logility, JDA

Software, Oracle, and many others compete in this space. Here are some screen shots of a package from JustEnough, to give you an idea of the capabilities of these applications.

[http://www.justenough.com/retail-inventory-allocation-software/]

In the first, screen shot you can see the individual store locations broken out and the allocation percentages listed based on performance metrics. The second screen shot is more focused on a category of merchandise grouped by style with exception reporting enabled.

MERCHANDISING DECISIONS

LEARNING OUTCOME

- Explore the techniques used to evaluate merchandising decisions.

Like all businesses, retailers must evaluate their performance on a regular basis in order to continue success, improve results, or turn-around sub-par situations. Based on the condition of the retail industry today, one might say that it is more crucial than ever to get it right. Given the different kinds of retailers it is difficult to make general statements regarding the methods used to evaluate merchandise decisions. Dick's Sporting Goods would have a somewhat different perspective than 7-11. Macy's would review their business differently than Big O Tires.

Despite the differences between retailers, there is one major common factor: the degree of complexity within their businesses. A review of retailer merchandise decisions reflects this complexity, revealing all of the dimensions of merchandise organization. Retail merchandise organization can be broken down from a product perspective: group, division, department, vendor, classification, sub-class and SKU. Another dimension of review could be a location perspective: region, area, district, store, department, classification and SKU. Layer on to that the time dimension: year, season, quarter, month and week. Retailers then take these various dimensions and find points of intersection depending on the level of the business undergoing analysis.

Retail merchandise analysis in usually performed both at a financial level and a unit level- again owing to the degree of complexity and level of detail needed to manage and analyze merchandise decisions.

INTRODUCTION TO BUYING MERCHANDISE

In an earlier section, we discussed in general terms how buyers help create their seasonal plans and make their purchase commitments. In this section, we will go into a bit more detail about the thought process that buyers use to make purchase decisions: vendor and brand selection, sourcing, negotiation and building strong partnerships.

BRAND SELECTION

LEARNING OUTCOME

- List some of the brand selection possibilities and their benefits.

Brand selection is an important part of any retail merchandise mix. The importance of a brand to a retailer depends of course on the category of retailer and its market niche, among other things. According to the National Retail Federation, the largest categories of the US retail market are:

- Food (Kroger, Safeway, Publix)
- Electronics (Amazon, Best Buy, Apple)
- Home Improvement (Home Depot, Lowe's, Amazon)
- Variety/Drug (Walgreen, Rite Aid, CVS)
- Apparel (Macy's, JC Penney, Kohl's, Nordstrom)

[https://nrf.com/2015/top100-table]

For these retail categories, some of the most popular brands come to mind:

- Food (PepsiCo, Coca-Cola, Nestle, Kraft, Betty Crocker, Kellogg's)
- Electronics (Apple, HP, Samsung, Microsoft)
- Home Improvement (Craftsman, Kohler, Stanley, Rubbermaid)
- Variety/Drug (Johnson & Johnson, Gillette, Cover Girl)
- Apparel (Nike, Levi's, Victoria's Secret, Burberry)

How does a retailer decide which brands are the right ones for their particular business? Brands can be used by retailers to enhance their business in several ways. First, some brands can grant exclusive distribution rights in certain markets to give a retailer enhanced prestige and a lack of competition for that particular product line (you won't find Prada shoes in Wal-Mart).

Secondly, brands in an assortment create credibility for a retailer. For the majority of retailers, brands share space in the assortment with the "store label" or "private label". Brands will usually be priced higher than the private label, creating a sense of value for the store brand. The GAP founded their business on carrying Levi's jeans along with GAP brand jeans at much lower price-points. You will find Advil carried at CVS, along with lower-priced "CVS Ibuprofen".

Third, brands offer a variety of other benefits to retailers. Product design, manufacture and transportation are all usually taken care of by the branded supplier, giving the retailer less to worry about. Branded vendors often will run advertising and promotions in-season that offer participation options for the retailers carrying the brand. Also, branded vendors will sometimes offer end-of-season special buys to retailers, off-loading extra inventory at reduced costs to beef up a retailer's bottom line. Finally, retailers can work with their branded suppliers to request markdown allowances and even return merchandise that is not selling as promised.

SOURCING DECISIONS

LEARNING OUTCOME

- Describe some of the issues involved with sourcing decisions.

Sourcing is simply the process of finding goods or services, but it is not a simple matter. Retailers share the same issues and considerations as most other businesses with the procurement function. What are some of the key issues involved when making sourcing decisions?

Company. First, retailers review the potential companies with which to source their goods or services. Does the company have a strong track record of manufacturing the products in question or performing the services being considered? Who are other customers of the company who have purchased similar products or received similar services being sought? Does the company being considered have the manufacturing capacity to handle your orders (if you are a large retailer like Target, Safeway, etc.)? Is the quality level of the company's products consistent with the quality expectations of your company? Does your company have an existing relationship with the company being considered and has met expectations in prior dealings. If you are that activewear buyer at Dick's looking for a source for men's private label outerwear, you would probably prefer to work with the company making outerwear for The North Face and L.L. Bean that you have worked with for many prior seasons.

Cost. One of the first criteria that comes to mind when making a sourcing decision is cost. A retailer will shop for the best possible price in relation to quality and availability. Common sense would dictate that lower costs lead to higher margins for the retailer.

Logistics. This term could be used to cover a variety of considerations regarding which company to select for your sourcing decision. In order to procure goods at the lowest price, retailers will sometimes source in less-developed

ountries. Does the company in question have the means of production physically in place to meet your anticipated needs? Are the components or raw materials of the product readily available to the potential sourcing company. Is the infrastructure in place for this company to be able to execute on the orders you would place? Is the company manufacturing in a country that has the appropriate infrastructure and logistics to be able to transport goods to the transportation hub for export?

Government Regulations. Other considerations would include if there are government regulations in place that would affect the sourcing decision: tariffs, quotas, etc.

Sourcing is both an art and a science. Larger organizations have staff who focus exclusively on providing sourcing services for their company. Software applications have been developed to support the sourcing process, as well as, managing purchase contracts throughout the manufacturing lifecycle (SCM, ERP, etc.). But as much as business is transacted between companies, it is conducted between the people representing those companies. Strong business relationships between the people involved can make the difference when inevitable problems occur. We will discuss this concept further in a later section.

NEGOTIATIONS

LEARNING OUTCOME

- Identify how a retailer can prepare for negotiations.

Let's begin this discussion with a definition of the term "negotiation".

"A negotiation is a formal discussion between two or more parties to reach an agreement."

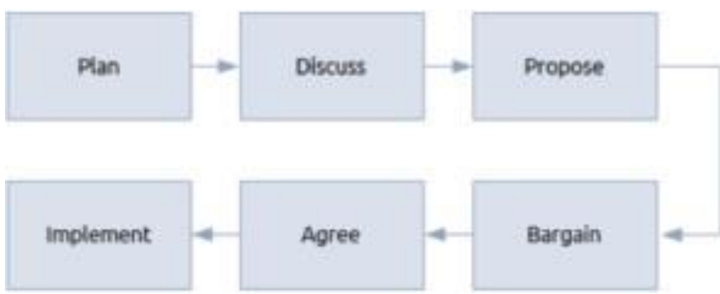
[https://simple.wikipedia.org/wiki/Negotiation]

As with many of the other topics we have discussed in this section, the principles of negotiation are the same for the retailer as they are for any business in general. Two obvious applications for negotiation are conflict management and procurement. These two examples illustrate the breadth of situations where negotiation skills need to be applied. Addressing personal conflict often involves emotional and cultural issues whereas procurement negotiation is usually about contractual terms and conditions.

Whatever the context, there are common factors that exemplify a good negotiator:

- the ability to describe common goals and boundaries;
- emotional control and equal treatment of all parties;
- good listening and communication skills;
- thorough knowledge of bargaining tactics;
- an ability to close a negotiation in a way that secures the outcome.

Regardless of whether the negotiation is competitive or collaborative, it usually follows a typical procedure:



- Plan: All parties should prepare thoroughly. This includes gathering as much information as possible; setting goals for the outcome and agreeing an escalation route if the negotiation is unsuccessful. Each party should attempt to understand the cultural, commercial and ethical background of the others.
- Discuss: Set the scene, identify the key issues and communicate the objectives. Listen, question and feedback regularly to confirm understanding.
- Propose: Propose a solution that is clear and unambiguous.
- Bargain: Discuss the proposal; communicate personal boundaries and areas of flexibility.
- Agree: Reach agreement on the core issues; document what has been agreed and record any peripheral, outstanding items with timescales for resolving them.
- Implement: Communicate the outcome of the negotiation as necessary, update management.

Negotiation is easy to get wrong. The cardinal sin is to enter into negotiations unprepared. This can easily lead to mistakes such as making opening offers that are clearly unacceptable to the other parties.

Specifically for a retailer, negotiations can be internally or externally focused. Internal negotiations typically are between departments. The merchandise buying office may negotiate for additional space for their product presentation with the store organization. The store organization may negotiate with the merchandise planning department for a larger allocation of certain goods.

External negotiations for retailers usually center around the procurement function of merchandise buyers. Typical buyer/vendor discussions would include issues like price, delivery, allocation, promotions, and allowances. Buyers should be thoroughly prepared with hard data regarding recent sales performance of the vendor's products in their operation, actual product delivery versus contracted, markdowns taken by the retailer to clear goods, and any quality issues or returns.

[https://www.praxisframework.org/en/knowledge/negotiation]

Here is an excellent video from Margaret Neale from Stanford Graduate School of Business on some advanced negotiation skills.

Watch this video online: https://www.youtube.com/embed/MXFpOWDAhvM?feature=oembed

BUILDING PARTNER RELATIONSHIPS

LEARNING OUTCOME

- Explain the value in building strong partner relationships.

Individuals and businesses alike need strong partner relationships to be successful. We have all learned of the benefits of individual connections and networking: information, advice, introductions, referrals and more. This is true in business in general and the retail industry in particular, especially between retailers and suppliers.

First, strong partner relationships between retailers and suppliers are the foundation of an effective supply chain. This topic was covered in an earlier section on SCM, so suffice it to say that mutual planning, commitment and loyalty between the parties are responsible for strong business success for both sides.

Second, even if a retailer and vendor are not participating in a formal SCM arrangement, a strong partnership between the parties will create mutual benefits. For the retailer, having strong vendor partners will ensure they are procuring the right products, delivered on-time and at the best prices. Vendors are also a great source of market information as they are probably working with many retailers in many geographies and channels and hearing lessons learned that can be shared with their closest retail partners.

Strong partner relationships greatly benefit vendors and suppliers as well. As was just mentioned, retailers will share valuable success/failure stories with trusted vendor partners. This provides direction and insights that vendors can use as they are making their own purchase decisions (for raw materials and production time) even further in the future than retailers in many cases. In addition to information, retailers will be more inclined to give trusted vendor partners more complete purchase commitments and estimates for projected activity further in advance.

Watch this video online: https://www.youtube.com/embed/YbEAtUqVHBg?feature=oembed

ETHICAL AND SOCIAL RESPONSIBILITIES

LEARNING OUTCOME

- Summarize the ethical and social responsibilities that come with buying decisions.

Ethical and Social responsibility is the idea that businesses should balance profit-making activities with activities that benefit society. It involves developing

businesses with a positive relationship to the society in which they operate.

Social responsibility takes on different meanings within industries and companies. For example, Starbucks Corporation and Ben & Jerry's Homemade Holdings Inc. have blended social responsibility into the core of their operations. Both companies purchase Fair Trade Certified ingredients to manufacture their products and actively support sustainable farming in the regions where they source ingredients. Conversely, big-box retailer Target Corporation, also well- known for its social responsibility programs, has donated money to communities in which the stores operate, including education grants.

[https://www.investopedia.com/terms/s/socialresponsibility.asp]

The Fair Trade concept is a world-wide movement where goods are produced and sourced in a sustainable and environmentally-friendly way. For retailers who procure products from less-developed countries, sustainable sources of supply cannot be maintained without workers and farmers receiving a living wage.

“When people have the capacity to invest in better futures, the result is a healthier workforce and ultimately higher quality goods. Our model is fueled by committees of farmers, workers, and fishermen who decide how to invest the Fair Trade Premium based on their community's greatest needs: often clean water, education, and healthcare.”

[https://www.fairtradecertified.org/why-fair-trade]

So-called “green” companies enjoy enhanced reputations and receive positive support from customers that often results in increased revenues.

PUTTING IT TOGETHER: MERCHANDISE MANAGEMENT

In this section, we have delved into the nuts and bolts of retail merchandise management- a topic at the very heart of the retail business. We started with a discussion of the organization and function of retail buying organizations. We broke down the primary roles of Buyer, Planner, and Operations personnel, saw how their responsibilities differ, and how they work together on merchandise planning. We explored how retail merchants approach different categories of goods differently, specifically, staple versus fashion merchandise, and how that impacts how retailers forecast sales estimates.

Our discussion then focused on five important and crucial retail methodologies: planning assortments, determining inventory levels, controlling merchandise flow, developing allocations, and evaluating merchandising decisions. While these functions are not exclusive to the retail industry, retailers do these things differently and in much greater detail due to the number of variables with which they must deal. For example, product managers in various industries develop assortment plans, inventory levels, and product flow for their product lines, but retailer methodology must factor multiple dimensions: a product perspective: group, division, department, vendor, classification, sub-class and SKU; location perspective: region, area, district, store, department, classification and SKU; and time dimension: year, season, quarter, month and week.

Finally, our discussion of retail merchandise management drills down on the buying function. We explored how buyers make brand selections and sourcing decisions. We examined negotiation preparation and skills for retail buyers, the benefits of building strong business partnerships and the ethical and social responsibilities of buying decisions.

The state of the retail industry continues to evolve. Mainstay retailers who have been in business for over a century and have anchored malls around the world are now closing their doors. Newer niche players are growing into national brands and will soon operate world-wide. Merchandise management is a key core competency needed to run a successful retail business. These principles apply to all retailers large or small, utilizing physical stores, online or hybrid multi-channel strategies. As the retail industry continues to evolve, so too must merchandise management techniques.

MODULE 12: RETAIL PRICING AND SALES STRATEGIES

WHY IT MATTERS: RETAIL PRICING AND SALES STRATEGIES

The term “pricing” is one of the four “P’s” we learn in classic product marketing. In the marketing world, product, promotion, placement, and pricing are the four categories that must be addressed and executed for a successful product lifecycle.

Although there is obvious carryover from classic marketing to retail marketing, pricing takes on a different level of importance for the retailer. This may be why there seem to be as many retail pricing strategies as there are retailers.

Let’s imagine that you are considering jumping into the retail industry by opening a candy store. You would have a myriad of things to address in your business plan. Who are your competitors? How much consumer revenue is currently being devoted to candy sales in the existing market? What are the demographics of the customer base? How much is the average purchase by the customer base? Where are the potential locations for your shop?

This list of questions would go on for many pages. Where would the pricing of your goods rank as a priority? That is one of the important points of this module. Pricing for the retailer is a key value lever, and an important core competency, but it does not exist in a vacuum and in fact is dependent on a variety of other factors.

In this module we will explore how retail pricing strategy is developed as part of overall business objectives. We will discuss many variables that affect retail pricing strategy such as product mix, competition, elasticity, cost factors, and supporting growth and success in the market.

INTRODUCTION TO PRICING IN RETAIL

We will take our candy store scenario a little further in this section as we learn about the definition of value, some basic retail pricing strategies we are probably all familiar with, and how pricing is an integral part of the retail mix strategy.

DEFINING VALUE

LEARNING OBJECTIVES

- Define value

“Value” is an overused and under-understood term in business today. Since we are wearing a retailer hat, we want to focus on value as it relates to our customers. For customers then, value is the perceived monetary worth of the combination of product, service, and utility provided.

The term “value proposition” is also a heavily-trafficked term used by business people today. It can be best illustrated by a thought-scenario: You are shopping for media services to help you get the word out online about your new candy store. The first company comes to you with the following statement: “Trust me, our firm is number one and will give you the most for your money”. The second company comes to you with: “We can guarantee 200 clicks per day for every month of our contract.” Which value proposition would you be most impressed by?

For retailers, value can take on even more meaning. For example, there is a class of retail companies referred to as “value-price” retailers (generally discounted and/or inexpensive products). The largest home-shopping network uses value as part of their daily programming with a hook called “Today’s Special Value”. And when was the last time you were in a retail store and did NOT see some signage referring to “great value”, “best value” or “value guarantee”? It is no wonder that our definition of “value” has become so murky.

RETAIL PRICING STRATEGIES

LEARNING OBJECTIVES

- Differentiate between basic retail pricing strategies

As we stated earlier, there are a large number of retail pricing strategies and methods. We will discuss a number of them in this section.

One major common denominator that runs through all of the pricing decisions made by retailers is the concept of "markup". Markup is simply the difference between the cost of the product to the retailer and the price at which the product is sold by the retailer divided again by the retail price. It is usually expressed as a percentage figure, so the calculation is made like this:

Retail price minus cost price divided by retail price

So if your item cost is $4.00 and you sell it for $10.00, you would calculate markup as:

($10.00 – $4.00 = $6.00) /$10.00 = .6 or 60%

Markup is a concept that every retailer understands and factors in consideration somewhere in every pricing strategy.

One of the most traditional retail pricing methods is called **keystone** pricing. Keystone pricing is simply the retailer doubling the cost amount to arrive at a 50% markup. For example, if an item costs a retailer $3.00 to buy, the retailer will set the price at $6.00.

Premium pricing is another retail pricing strategy. In this method, the retailer takes a larger markup on a product in order to establish higher perceived value for that product. For example, a new designer brand being introduced by a department store might see 70%- 80% markup levels initially (especially if the store has an exclusive arrangement with the vendor so no competitors have the same products).

Discount pricing is a prevalent retail pricing strategy. Retailers such as Kmart, Target, Wal-Mart and others pioneered this method, setting their sights on moderate-priced competitors and setting prices below them. Retailers can expect markups to drop below 20% and even lower depending on the product category. The latest wave of discount retailers have simplified the discount strategy even further by featuring entire stores with goods all priced at $1.00 or even 99 cents.

Psychological pricing refers to taking advantage of human perception to convince customers of a more attractive price. For example, instead of placing a price tag of $200 on an electronic product, a retailer may mark the item at $199. Or a dress shirt may be marked at $29.99 instead of $30. Although it is a small difference in price, it is believed that people pay more attention to the first number in the price.

Another common retail pricing strategy is **bundle** pricing. This term refers to grouping multiple items and pricing them together. There are many variations of this strategy as well. "Twofor" pricing (2 for $10), "BOGO" (Buy One Get One Free), "Get 50% OFF the Second Item", etc.

The last retail pricing strategy we will discuss in this section is **tiered** pricing. Tiered pricing is the practice of establishing set price-points within a product category and marking all the products in that category at those price-points. For example, men's ties from different manufactures could be priced at $11, $12, $16, $18, $22 or $25 depending on their different costs. In a tiered pricing scenario, a retailer may offer these ties at $10, $15 and $20 to simplify their price structure.

PRICING AND THE RETAIL MIX

LEARNING OBJECTIVES

- Explain how pricing is integrated with the rest of the retail mix strategy

At the beginning of this module, we state that retail pricing strategy does not exist in a vacuum and is dependent and interrelated to other business factors. Retailers have used the “Six P’s of Retail” model to visualize how various combinations of these factors combine to form the right “mix” for the business. Each retailer works to create their own unique formula for success, but there needs to be consistency among these factors.

Product refers to the assortment of goods the retailer offers to their customers. Retailers try to align their product mix with the needs and wants of their target customers. They consider the quality level of goods carried, depth and breadth of assortment, brands versus private label, etc.

Promotion entails the marketing efforts to support sales of the retailer’s products. This factor of the retail mix is concerned with advertising, publicity, social media, cross-channel selling, etc.

Presentation is the retail mix factor concerned with the image of the retailer both in store and online. How professional is the look and feel of the customer experience? How do things like logos, color schemes, music and even aroma influence the customer’s perception of the retailer.

Personnel refers to the people employed by the retailer and the level of service they provide. From baristas in Starbucks to online customer service agents at Amazon.com, customers’ perception of the retailer will be impacted through their experience with the retailer’s people.

Place is the retail mix factor that includes store location, website appearance and functionality, accessibility, etc.

Pricing is one of the most important areas of the Six P’s. We have already examined several pricing strategies in this module as independent entities. As with the other Six P factors, there must be consistency across all of the dimensions to create and execute a successful retail business.

Your specialty candy store carrying truffles hand-made on site would probably do well with a premium price strategy for these unique edibles. Conversely, a mass-merchant retail chain located in a strip center carrying basic quality goods would probably not do very well with a premium price strategy. A department store retailer located downtown carrying luxury designer goods would not wish to employ a discount-price strategy for their high-end customers. “Twofor” pricing would not be a successful pricing strategy for a retailer selling automobiles. To be successful, a retailer’s pricing strategy must be consistent with all of the factors of the retail mix model.

INTRODUCTION TO PRICING OBJECTIVES

We will examine the connection between retail pricing strategies and retailer's business models/objectives in this section. In addition to thinking like retailers, we will take a step back to examine some general economic principles that retail businesses must understand and contend with.

EXTERNAL FACTORS AND RETAIL PRICING

LEARNING OBJECTIVES

- List some external factors that impact retail pricing

There are three major external factors that impact retail pricing. They are

- Competition
- Channel
- Geography

Competition is what comes to mind first when considering how to run almost any business. For retailers, they will do extensive research to understand who is their competition and how they operate in a given market. They will physically "shop" the competition to obtain information about assortments of merchandise, the depth of the assortments, pricing of items carried (especially those that are in common), in-store promotion and presentation, online activities, and how the competition may change over time. Retailers will also speak to vendors in common to glean tidbits of what competitors may be planning to do in the future.

Channel refers to the various means that customers use to shop for merchandise. The most common are retail stores, catalogs, online, direct sales, and home shopping television networks. Today, many retailers have adopted multi-channel strategies to protect and grow their share of market. This adds several layers of complexity to pricing policies. Although somewhat of a new term, multi-channel retailing has been in place for over a century. Sears started doing business as a catalog only, then added retail stores and finally joined in the online shopping channel. There are many examples of retailers starting in one channel and pushing out into others.

Geography refers to specific market locations. It can defined as broadly or narrowly as appropriate for the retailer's target. Examples of retail geographies would be: the Los Angeles area, the Midwest, Mexico, online, South America, Mid-town Manhattan, the EU, etc. As you can see from these examples, geographies can be city blocks, cities, states, countries, continents, and world-wide on the Internet. Retailers are interested in geographies, primarily looking for commonalities in factors such as buying preferences, price elasticity, government regulation, and overall economic condition.

There are other considerations as well, but most retailers will develop pricing strategies specifically for competition, channels and geographies in order to be competitive in all areas.

PRICING STRATEGIES

LEARNING OBJECTIVES

- Match various pricing strategies with the business objective it represents

Our discussion of retail pricing strategies has so far covered some important high-level concepts. We started with the basic principles of value and markup. We then explored some common methods of pricing a retailer can employ: keystone, premium, discount, psychological, bundle, and tiered. That was followed with a discussion of how pricing is part of the overall retail mix and the 6 P's. Finally, we touched on some external factors that affect retail pricing: competition, channel and geography. Clearly being a retailer is not for the faint of heart!

Given all of these considerations, the one most important factor underlying a retailers' pricing strategy is the high-level business objective being supported.

A common business objective for a retailer would be to **grow revenue**. To accomplish this objective, a retail business would create a comprehensive strategy across all dimensions of the company. Such an overarching strategy would include a review of current competition strength and weakness, current channel performance, sales results by geography, product mix performance, promotion history, review of results of current pricing methods, and much more. As the retail business looks for improvement across all of the various areas, the pricing strategy would play a large role in attaining a goal of increasing revenue.

Certainly to grow revenue you would expect that the retailer would become more aggressive in their overall pricing, perhaps through promotion or establishing everyday value, bundled or tiered pricing on important categories (Key Value Categories or KVCs) and items (Key Value Items or KVIs) in the assortment. We will talk about KVCs and KVIs later in this module.

Pricing strategy would be an important component to support the retail business objective of **increasing profit**. As the retailer develops their overall strategy to achieve this goal, you can imagine that the pricing strategy would focus on raising margins through premium pricing and less aggressive promotion. This is not as simple as this brief discussion would imply–a retailer cannot simply raise prices across the board arbitrarily and expect good results. Product assortments would have to be modified by adding more high-value or exclusive merchandise. Assortments of the high-value categories would have to be deepened so that the retailer could feel confident that their assortment dominance earns the right to higher markups.

Another common retail business objective would be **penetration into a new market area**. There are several possible pricing strategies that could be employed to support this business objective. For one, a retailer could distribute their existing product assortment into the new market and promote it heavily- taking a temporary hit on margins in order to establish their business in the new geography. Another pricing strategy that has been used in this situation is the adding of "loss leaders" temporarily to the product mix and pricing them at discount levels. In this scenario it would not be uncommon to expect vendors to assist the retailer with special buys on select products in order for both retailer and vendor to expand their presence in a new geography.

These are just a few examples of how various retail pricing strategies could support overall retail business objectives. Given all of the principles, methods, and factors of retail pricing we have discussed so far, the bottom line is there must be congruence between pricing strategy and the needs of the business for the retailer to succeed.

PRICE ELASTICITY

LEARNING OBJECTIVES

- Define price elasticity

Elasticity is a classic economic principle that helps us understand how much a change in price will affect market behaviors. If we make a change in price, how will that impact the demand for the product? Price elasticity is the measure of the market's response to price changes.

Elasticity is important to pricing decisions because it helps us understand whether raising prices or lowering prices will enable us to achieve our business objectives. How much will a lower price increase sales? Will a price increase cause us to lose many customers or just a few? Price elasticity is another factor to consider in order to select the most effective pricing strategy.

Elasticity in price denotes a large impact on demand due to changes in price. Raising the price causes decreased demand, while lowering the price stimulates increased demand. Inelasticity refers to the situation where there is insensitivity to price–demand will not increase or decrease despite changes in price.

Here is a case study from a mass-merchant retailer that illustrates price elasticity.

In the 1980's there was a certain men's denim jean manufacturer who had the dominant brand in the market. Their brand was so popular that they could not physically produce enough product to satisfy all of their retail customers. In order to be fair to all of their customers, the company devised an "allocation" system that gave all retailers the same percentage of their desired orders. For example, if a retailer wanted to buy 100,000 pairs of denim jeans for the season, and the allocation was 80%, the retail customer could expect to receive 80,000 pairs.

On the retail side, an annual event called "Back to School" was the most popular time to sell denim jeans. All of the major retailers targeted the middle of August to advertise their big sale of the popular jean brand. These were days well before "big data" analytics, but the mass merchant in question had been running this promotion at the same time for many years and so knew exactly how many pairs of the denim jean product it would sell by month, week and day given the price.

The retailer in this case study knew that it would sell 50,000 pairs a week at a sale price of $24.99, 75,000 pairs at $22.99, and 120,000 pairs at $19.99 sale prices. So it become a matter of the supply (how much did the retailer have in stock) versus the projected sales at the various sale price options. If the mass-merchant could procure 85,000 units of the denim jean product, then they had to set their big sale price no lower than $22.99 or risk selling out.

This is a classic example of price elasticity. You have the situation of limited supply and highly sensitive market reaction to the price of the goods in question.

PRICE ELASTICITY CALCULATIONS

LEARNING OBJECTIVES

- Calculate the price elasticity of a product based on the given situation

Remember, elasticity measures the responsiveness of one variable to changes in another variable. In the last section we looked at price elasticity of demand, or how much a change in price affects the quantity demanded. In this section we will look at both elasticity of demand and elasticity of supply. Supply can also be elastic, since a change in price will influence the quantity supplied.

In order to measure elasticity, we need to calculate percentage change, also known as a **growth rate**. The formula for computing a growth rate is straightforward:

Percentage change = Change in quantity / Quantity

Suppose that a job pays $10 per hour. At some point, the individual doing the job is given a $2-per-hour raise. The percentage change (or growth rate) in pay is:

$2 / $10 = 0.20 or 20%.

Now, recall that we defined elasticity as the percentage change in something divided by the percentage change in something else. Let's take the price elasticity of demand as an example. The price elasticity of demand is defined as the percentage change in quantity demanded divided by the percentage change in price:

Price elasticity of demand = Percentage change in quantity demanded / Percentage change in price

There are two general methods for calculating elasticities: the point elasticity approach and the midpoint (or arc) elasticity approach. Elasticity looks at the percentage change in quantity demanded divided by the percentage change in price, but which quantity and which price should be the denominator in the percentage calculation? The point approach uses the initial price and initial quantity to measure percent change. This makes the math easier, but the more accurate approach is the midpoint approach, which uses the average price and average quantity over the price and quantity change. (These are the price and quantity halfway between the initial point and the final point. Let's compare the two approaches.)

Suppose the quantity demanded of a product was 100 at one point on the demand curve, and then it moved to 103 at another point. The growth rate, or percentage change in quantity demanded, would be the change in quantity demanded (103−100) divided by the average of the two quantities demanded (103+100) / 2.

In other words, the growth rate:

103−100 / ((103+100) / 2)

= 3 / 101.5

= 0.0296

= 2.96% growth

Note that if we used the point approach, the calculation would be:

(103–100) / 100

= 3% growth

This produces nearly the same result as the slightly more complicated midpoint method (3% vs. 2.96%). If you need a rough approximation, use the point method. If you need accuracy, use the midpoint method.

If:

% change in quantity > % change in price > 1 = Elastic demand

% change in quantity > % change in price < 1 = Inelastic demand

INTRODUCTION TO PRODUCT PRICING METHODS

We'll go into a bit more depth on the math of a cost-oriented approach to retail pricing. First, we will learn more about the three components of retail pricing math: cost, markup percentage, and retail price. Additional components will then need to be considered in order to perform a break-even analysis, and we will explore the concepts of gross margin dollars and gross margin percent. Then we will break away from cost-oriented pricing methods and examine retail pricing based on competition and demand.

COST-ORIENTED PRICING EQUATIONS

LEARNING OBJECTIVES

- Using cost-oriented pricing equations, calculate the retail price, the cost, and the markup percentage of a product

We touched on this topic briefly in an earlier section when we calculated the markup of an item costing $4.00. We also discussed the concept of keystone pricing, which is simply a straight 50% markup on all items regardless of cost. We can easily calculate the different components of retail pricing using known variables.

To **calculate the retail price based on cost** requires knowing your markup objective. Markup, again, is the difference between what the retailer paid to a vendor for the product and the price at which they sell it to their customers. So for a target 53% markup on an item costing $9.00, we will need two steps. First, we need the "cost complement" of the markup which is calculated as:

Cost Complement = 100% – Markup

Cost Complement = 100% – 53%

Cost Complement = 47% or .47

Then we simply divide the cost of the product by the cost complement to arrive at the retail price.

Retail Price = $9.00 / .47

Retail Price = $19.15

To calculate markup percentage based on cost and retail price, we use the formula discussed earlier:

Retail price minus cost price divided by retail price

So if your item cost is $4.00 and you sell it for $10.00, you would calculate markup as:

($10.00 – $4.00 = $6.00) /$10.00 = .6 or 60%

Finally, **to calculate cost based on retail price and markup** with a retail price of $25.00 and a markup of 55%, we would use this formula:

Cost = Retail price * Cost Complement

Cost = $25.00 * .45

Cost = $11.25

BREAK-EVEN POINT

LEARNING OBJECTIVES

- Calculate the break-even point for retail product sales

When we bring the topic of break-even analysis in to our discussion, we will need to add some additional components to our thinking. A retailer will need to understand that there is more than just selling an item for more than it costs (or even the added cost of acquiring the product and having it transported to the retailer and further distributed to stores or direct to customers).

The components **gross margin dollars**, **gross margin percent**, and **fixed costs** are needed to calculate a break-even situation.

Gross margin dollars is the raw profit of retail items after they have been sold. In most retail accounting methods, the gross margin dollar calculation is markup multiplied by units sold minus price adjustments and shrinkage. For example, a retailer buys 1,000 units of dog food at $10.00 and prices it at $20.00. After the 1,000 units have sold, $10,000 gross margin dollars have been generated ($20 – $10 = $10 * 1,000 units = $10,000). Now, some of the dog food was sold at a sale price of $15.00 during a promotional event. The difference between the regular price of $20.00 and the sale price of $15.00 is calculated based on the units sold at that event. If 200 units were sold on sale then $1,000 (200 * $5.00) would be subtracted from the gross margin dollar figure as a price adjustment. Also, retailers account for a variable called shrinkage which consists of damaged, lost or stolen merchandise. It is usually a small fixed percentage that is applied to all sales items across the board, say 2.5% for the sake of our discussion. Therefore, the gross margin dollars generated by the dog food product would be:

Sales dollars generated = $20,000

Minus price adjustments – $1,000

Minus shrinkage (2.5%) -$ 250

Gross margin dollars = $18,750

Next we need gross margin percent. It is calculated much in the same way as markup percentage:

Gross margin percent = Gross margin dollars – cost / sales dollars generated

In this example, we take ($18,750 – $10,000 = $8,750) / $20,000 = .4375 or 43.8%.

To calculate break-even point sales, we use:

Break-even point sales = Fixed Costs / Gross Margin Percentage

If our monthly expenses are $25,000 per year, then:

Break-even point = $25,000 / .4375

= $57,143

In our example, a retailer would have to generate $57,143 in product sales to break-even

COMPETITION-ORIENTED PRICING

LEARNING OBJECTIVES

- Explain how a retailer can use competition-oriented pricing to determine the price of a product.

Let us examine another method to develop retail pricing strategy based not on cost but instead based on competition. Competitor-based pricing, or market pricing, uses competitor's pricing, promotions and inventory position to set a retailer's pricing strategy. Depending on the retailer's overall pricing strategy and business objectives, pricing may be higher, lower, or matching that of competitors.

Today prices are very transparent to most consumers. Anyone with a smart phone can be online or in a store and instantly compare prices on a similar product. That is why competitor-based pricing is so prevalent where products are easily identifiable, such as with electronics, appliances, and media. Price transparency also creates a counter-strategy where retailers avoid direct comparison through "privatizing" their branded assortments. Have you ever found the same model of mattress from Sealy or Serta at different mattress retailers so that you could compare the price?

Competition-based pricing sounds like a simple strategy to implement once a retailer has decided how pricing fits in to an overall business strategy. But with all of the channels and geographies today, there could be thousands of data points to track who is selling what for how much, especially for larger retailers. Software products have even been developed to assist retailers with this issue. Companies like Competera, Wiser, Minderest, Omnia and others offer software products to track competitive pricing and in some cases, automatically perform price adjustments at store level.

The final point on competition-based pricing relates to inventory position. Retailers take their direct competition very seriously and do not like to find out that they are being undersold by a legitimate competitor. But as we saw in the earlier case study about denim jean pricing, a lower price from a competitor is only a threat when consumers can actually buy the product at the lower price. In fact, when a retailer "low-balls" pricing on a recognizable commodity, they had better have the inventory position to support the rate of sale, otherwise they will incur the wrath of the consumer and the low-pricing attempt will actually backfire.

DEMAND-ORIENTED PRICING

LEARNING OBJECTIVES

- Describe how retailers use demand-oriented pricing

In addition to cost-oriented or competition-oriented pricing, demand-oriented pricing is also seen in the retail industry. It is a strategy based on known periods or high or low demand and the elasticity of price during those periods. We will explain this strategy using a few examples.

One of the simplest examples would be the pricing and selling dynamics at your local farmer's market. Early in the morning when the market is first open, there is the best selection but at the highest prices of the day. As the day goes on and the market nears closing, the produce will normally see a reduction in price by the sellers who are trying to avoid having any product left unsold.

Another example of demand-oriented pricing comes from the airline industry. Flights from Minnesota to sunny Arizona in February will not be at the same price as the same flight in August . The aircraft would use the same amount of fuel, have the same number of employees on board, and pay the same airport costs, etc. The flight in August would only be partially full compared to the number of travelers in February. If there are more passengers in February sharing the costs of the airline operation, the ticket price should be less in a cost-based world. But it is the opposite. This is due to demand. Arizona is a much more desirable destination for snow birds in winter thus the price goes up.

The same demand-oriented pricing exists in the retail industry. When down parkas are offered by department stores at the beginning of the fall season, they will be at their highest-ticketed price. There may be off-price promotions during "pre-season" and heading into the holidays, but most retailers will continue to "own" the down parka at the original price throughout the prime selling season. Then, when it is time for swimwear and shorts to arrive for sale, the price of those down parkas will undoubtedly be greatly reduced. With falling demand for down parkas, the retailer lowers the price in efforts to reduce inventory.

These are simple examples to illustrate the concept. Imagine the complexity of a demand-oriented pricing strategy for a large supermarket retailer where there are tens of thousands of individual products to track. The same ebb and flow of demand certainly exists in grocery products, but adjusting pricing across all of the product categories to take advantage of the dynamics would be a huge challenge. Once again, software applications have been created to help retailers handle the analytics and automation of demand-based pricing.

INTRODUCTION TO PRICE ADJUSTMENT TECHNIQUES

Most know of the phrase "never pay retail" but may not understand the mechanics behind how retail prices change over time. A price adjustment is any change to the original price of a product in inventory by a retailer. There are three primary forms of price adjustment: promotion, price protection and markdown. We will explore all three of these price adjustments in this section.

MARKDOWN OPTIMIZATION SOFTWARE

LEARNING OBJECTIVES

- Understand the three types of price adjustments used by retailers

A price adjustment is any change to the original price of a product in a retailer's inventory. There are three primary forms of price adjustment: promotion, price protection and markdown. One caveat: different retailers use different terminology and even accounting methods in this area. We will discuss retail price adjustments in their most commonly-used context.

A **promotion** is a temporary form of price adjustment. This is when a product is "on sale" for a designated time period and will return back to its original or "regular" price after the promotion ends. Retailers like to be able to show a value in the sale, so a comparison between the regular price and the promotional price is thought to stimulate more unit sales. There are regulations, usually enacted by state, as to how a "regular" price is established- usually it is based on how long a product has been in inventory at a certain price. The retailer must be cognizant of this when planning promotions and must limit the amount of time the product is "on sale" or else the promotional price will become the new "regular price."

Price protection is a common form of price adjustment and the one that probably comes to mind first for the consumer. What happens when a shopper purchases a product on Sunday only to see it advertised at a lower price on Monday? Most retailers offer "price protection" for a time period before and after a product has been reduced in price by a promotion. Most retailers will offer to refund the difference in price for 10- 30 days after purchase.

Another form of price protection is "price matching". This is closely related to the concept of competition-oriented pricing discussed earlier in this module. Price matching is the price adjustment made by a retailer when the same product purchased is advertised or available in the competition for a lower price. Retailers will usually refund the price difference, although in fiercely competitive situations, they have been known to offer 5% or 10% additionally on top of the difference in price.

Finally, a **markdown** is a permanent form of price adjustment used by the retailer to "liquidate" the inventory of a product or category of product. There are many different approaches to how retailers manage this form of price adjustment. Some retailers have an internal policy that establishes how much the first markdown must be. Depending on the retailer or the product category, first markdowns can range from 20% off to 50% or even 60% off the original price.

Also, retailers may have a set schedule of when subsequent markdowns are taken to ensure that the inventory will be eliminated by a target date. For example, an item marked down to 40% off could then see an additional price adjustment in four weeks, with an additional 30% off being applied to its price. Two weeks later a retailer could slash further and take another 20% off that price. The markdown process can be manually managed (monitor sales based on the latest price adjustment and calculate weeks of supply) or automated using a variety of software applications available to retailers.

REDUCING PRODUCT MARKDOWNS

LEARNING OBJECTIVES

- Explain how retailers can reduce the amount of product that ends up in markdowns

Every retail buyer or store owner wants to reduce markdowns. The old-school adages that address this issue is "buy the right stuff" or "buy less and sell more".

Markdowns should not be regarded as necessarily a bad thing- they are a constant factor in retailing and a cost of doing business. Therefore, markdowns should be part of the retailers seasonal and annual plan and factored in to financial performance expectations. Is there such thing as selling out of each and every product in a retailer's inventory? Actually there is, but not at the original price- markdowns is the method by which retailers do sell out.

But to answer the question, there are several ways retailers can manage to reduce their markdowns.

First, we have to remember that the planning and purchasing of retail assortments is both an art and a science. Products that are considered seasonal or fashionable are the most volatile and difficult to predict. Inclement weather in a market can destroy sales of summer goods while an instant change in fashion tastes can derail a once-established trend. Retail buyers typically must make buying selections 6 to 12 months in advance in many cases.

So the first way a retailer can reduce markdowns is to have a strong supply chain. A strong supply chain can help reduce the lead time in the procurement process. For a volatile fashion category, some retailers have established supply chains that allow them to order 10 weeks in advance instead of 6 months. In seasonal categories, a sound supply chain can provide some flexibility to the later replenishment orders to help retailers compensate for slower sales.

A second method to reduce markdowns is timely receipts of product. If a retailer has purchased a quantity of goods based on planning a selling period of 18 weeks, and the vendor is two weeks late on delivering those goods, there will technically be a two-week surplus of supply for the retailer to deal with. Usually, the retailer will negotiate some sort of compensation for this type of issue, but on-time deliveries are a must to keep markdowns within planned guidelines.

A third method of reducing markdowns for multi-store or multi-channel retailers is the distribution of goods. Most larger retailers have specialists responsible for distributing incoming product to ensure the right quantities are routed to the right locations- either the right stores or regional warehouses for direct shipment to online buyers. This can be almost as tricky as the initial procurement function. There is nothing worse for a buyer than to sell out of product in one market while taking big markdowns in another due to poor distribution decisions.

Finally, the last method we will discuss to reduce markdowns is quick reaction by merchants to slow sellers. If an item is underperforming its forecasted rate of sale, it will only accumulate in quantity and tie up inventory dollars until it is liquidated- usually resulting in a big markdown at season-end. Recognizing slow sellers and taking immediate action will serve to give the item more time to sell at a price that may be more attractive to shoppers. Good retailers will not wait and hope that sales will magically increase but instead take a healthy initial markdown right away. The old retail adage "the first markdown is the best" can actually reduce markdown dollars overall and free up dollars to purchase better-performing items.

In reviewing all of the methods we have discussed for retailers to reduce markdowns, we find a common denominator: execution. Implementing a strong supply chain, pushing for timely receipts from your vendors, ensuring accurate distribution of product through your sales channels and being quick to react to underperforming items all involve the discipline of good execution of a plan.

LIQUIDATING MARKDOWN MERCHANDISE

LEARNING OBJECTIVES

- Summarize the options for liquidating markdown merchandise

Once retailers decide to markdown a product or product category, it remains in inventory until sold out. How do retailers handle the process from initial markdown to final liquidation?

The first method we discussed in an earlier section. Most retailers will have a set process, including markdown percent thresholds, that will be used to sell through markdown merchandise. For example, the first markdown could be set at 40% off original price for a period of four weeks. Then the products could be reduced further by another 25%-33% for a set period of, let's say, another four weeks. After that, it may be time for "last call" where the product is reduced an additional 50% off.

Larger retailers will use set company promotions as the target dates to take the series of price reductions. For instance, a product may be marked down at first and featured in an Easter Sale. Then, the next markdown may be taken to coincide with the Mother's Day sale (for the sake of this example we will assume that this is a product that appeals to women). Then, a Summer Sale could be a good time to take the final price hit and liquidate the remaining inventory.

Another method used by retailers (and wholesalers) is to sell markdown goods in "lots" (large chunks of merchandise) to third-party liquidation companies. These are usually companies who only deal in surplus, off-price goods and they in turn re-sell those products to secondary and tertiary markets. In many cases these third-party companies have international outlets by which to liquidate the markdown goods.

Finally, some retailers have designated channels within their company to dispose of markdown products. Outlet stores began in this way. These so-called clearance outlets started by "inheriting" the markdown products of high-end retailers who did not want to have clearance product on their sales floor. We have all seen the popularity ofoutlets evolve into entire malls of such stores. So much product can be sold at outlet stores that they could not rely on markdown leftovers alone. Retailers now have full-time buying and distribution staff responsible for keeping the outlet version of their brand well-stocked with original product.

INTRODUCTION TO PRICING TECHNIQUES

Are the business objectives of increasing sales and increasing profits mutually exclusive? We may think that the easiest way to increase sales is to lower prices, and that will only serve to lower profits. Conversely, will higher prices lower sales but increase profits? We have seen how retailers do the math to calculate markup, gross margin and break even. But is there a way through strategic pricing and related elements to increase sales AND profits together?

PRICE DISCRIMINATION

LEARNING OBJECTIVES

- Differentiate between first, second, and third-degree price discrimination

Price discrimination exists within a market when the sales of identical goods or services are sold at different prices by the same provider. The goal of price discrimination is for the seller to make the most profit possible and to capture the market's consumer surplus and generate the most revenue possible for a good sold. Although the cost of procuring the products is the same, the seller has the ability to increase the price based on location, consumer financial status, product demand, etc.

Within commerce there are specific criteria that must be met in order for price discrimination to occur: the company must have market power, the company must be able to recognize differences in demand, and the company must have the ability to prevent arbitration, or resale of the product.

There are three types of price discrimination that exist. The exact price discrimination method that is used depends on the factors within the particular market.

- **First degree price discrimination:** the monopoly seller of a good or service must know the absolute maximum price that every consumer is willing to pay and can charge each customer that exact amount. This allows the seller to obtain the highest revenue possible.
- **Second degree price discrimination:** the price of a good or service varies according to the quantity demanded. Larger quantities are available at a lower price (higher discounts are given to consumers who buy a good in bulk quantities).
- **Third degree price discrimination:** the price varies according to consumer attributes such as age, sex, location, and economic status.

Price discrimination is a driving force in commerce. It is evident throughout markets and generates the highest revenue possible by shifting the price of a product based on the consumer's willingness to pay, quantity demanded, and consumer attributes. Many examples of price discrimination are present throughout commerce.

Airlines and other travel companies use price discrimination regularly in order to generate revenue. Prices vary according to seat selection, time of day, day of the week, time of year, and how close a purchase is made to the date of travel.

Coupons are used in commerce to distinguish consumers by their reserve price. A manufacturer can charge a higher price for a product which most consumers will pay. Coupons attract sensitive consumers to the same product by offering a discount. By using price discrimination, the seller makes more revenue, even off of the price sensitive consumers.

Premium pricing uses price discrimination to price products higher than the marginal cost of production. Regular coffee is priced at $1 while premium coffee is $2.50. The marginal cost of production is only $0.90 and $1.25. The difference in price results in increased revenue because consumers are willing to pay more for the specific product.

Gender based prices uses price discrimination based on gender. For example, bars that have Ladies Nights are price discriminating based on gender.

Retailers use incentive price discrimination to offer special discounts to consumers in order to increase revenue. Incentives include rebates, bulk pricing, seasonal discounts, and frequent buyer discounts.

LOSS LEADER

LEARNING OBJECTIVES

- Define loss leader

A **loss leader** (also **leader**) is a pricing strategy where a product is sold at a price at or below its market cost to stimulate other sales of more profitable goods or services. “Loss lead” describes the concept that an item is offered for sale at a reduced price and is intended to “lead” to the subsequent sale of other services or items, the sales of which will be made in greater numbers, or greater profits, or both. The retailer tries to maintain a current analysis of its margins for both the loss lead and the associated items, so it can monitor how well the scheme is doing, as quickly as possible, thereby never suffering an overall net loss.

Examples of the use of loss leaders would be the sale of diapers at toy store chains hoping that parents and/or kids will be enticed to include toys in the purchase. Large home improvement stores will offer larger tools such as drills as a loss leader while enjoying high markups on associated products such as drill bits, cases and stands. And in telecommunication company consumer stores, smart phones will be offered at highly discounted prices in order to sell monthly services, cases, chargers and headphones.

Loss leaders are somewhat effective in generating revenue on the leader and increased action on the associated products, but overall the use of loss leaders is not a sustainable strategy for long-term business success. However, loss leaders can be an effective tool in achieving short-term business objectives like increasing market share, penetrating a new market or geography, and inflicting hurt on a competitor.

PRICE LINING

LEARNING OBJECTIVES

- Illustrate the technique of price lining

Price lining is a technique used by retailers to group common items at set price-points. Rather than setting the retail price based on cost or competition, price lining is a way to simplify the pricing of assorted goods by establishing tiered price points that can support assortments of goods.

This technique fits well with a traditional retail assortment structure of “Good-Better-Best”. At the local hardware store, the retailer will carry an assortment of vent filters at three quality levels. A “good” filter that catches dust, may retail for $10.00. A “better” air filter, which catches dust and small particles, would have a price set at $15.00. And the best filter, which catches dust, particles and pollen would retail at $20.00.

Another way retailers use price lining is to keep the number of retail price points to a minimum despite disparate costs from the vendor. Men’s neckties are a good example. At the moderate soft goods store, the men’s tie buyer may be purchasing product from five to ten vendors, each with multiple costs. Instead of setting retail price individually based on cost, the buyer could establish price points of $20.00, $30.00 and $40.00 and use these to group the products for floor presentation, advertising, etc.

Although both of the examples used have three price points, price lining does not require a set number of price points. A retailer could price line all of their large garden tools- rakes, hoes, shovels- and price them at $40.00. And we have all seen the “dollar” stores where the entire store is price lined at $1.00 no matter the cost.

HISTORY OF ODD PRICING

LEARNING OBJECTIVES

- Explain the concepts of KVC and KVI and their impact on retail pricing strategy

One of the latest pricing strategies used by retailers is based on the concept of KVCs and KVIs. Key Value Categories and Key Value Items are a holistic method of pricing that do not rely exclusively on cost, demand or competition to make pricing decisions.

In the 1970's and 1980's, mass merchants developed the concept of "Key Items". Key Items were identified by retailers during the planning phase of an upcoming season as a way to ensure that products perceived to be most important to the customer base are given extra attention by the retailer. For retail management, it was a way to cull broad assortments of products to ensure investment in the "right" products, and lists of roughly 200-300 Key Items were developed so that all areas of the business could work together on a common objective–maximizing the sales revenue of Key Items.

Key item strategy involved: management inspection of buying plans to ensure proper product quantities, flow and replenishment; product development departments developing the appropriate supply chain to ensure consistent quality and source of supply; store presentation guidelines (plan-o-grams) that would be consistent in every location to leverage impact and "market basket" benefits; promotion plans to take advantage of deep quantities and store presentations; and, pricing to be either especially sharp against competition or premium pricing to reflect the retailer's strong position in the key item product.

What is an example of a Key Item? They vary depending on the retail market, but most have one thing in common- they tend to be a basic or staple item in the retailer inventory. One of the earliest examples of a Key Item in apparel retailing was the basic pocket t-shirt in the 1980's at Gap Stores. What made it special was the unique high-quality of the product and that it was displayed in twenty colors (most competition at the time would carry 3 to 4 colors of that item). A more current example would be supermarkets displaying cases of soda in such quantity that they are displayed in the form of castles so as not to be missed.

Over time, as more retailers have embraced this strategy, the Key Item terminology evolved into Key Value Items or KVIs. And further, to take advantage of the extra transactions KVIs stimulated in related products, Key Value Categories or KVCs became another area of focus for the retailer. Both KVI and KVC lists have expanded due to the advances in data analytics, allowing retailers to maintain scrutiny of over 1,000 products. Commercial software applications have been developed exclusively to help retailers plan and track KVIs and KVCs.

KVIs and KVCs are probably the best example of how retail pricing strategies directly support high-level business objectives. In addition, retailers gain more leverage and a bit more control to make pricing decisions based on their priorities instead of reacting to purely external forces.

PUTTING IT TOGETHER: RETAIL PRICING AND SALES STRATEGIES

In this module we have covered a significant number of concepts that drive retailer's pricing decisions. We started with a set of tactical pricing techniques that included keystone, premium, discount, psychological and bundle pricing. We began to understand that pricing is a component of an overall strategy folded in to the retail mix–the six P's of retail. We encountered additional variables of competition, channels and geography and imagined how they could impact pricing strategies.

Basic economic principles came into play when we explored price elasticity and even how it can be quantified. Our discussion of cost-oriented pricing entailed even more retail math as we calculated gross margin and break-even factors.

Competition-oriented pricing reminded us of how difficult it is to be successful in the retail business today. Our demand-oriented pricing discussion demonstrated how retailers can take advantage of market conditions to improve margins.

We came to the topic of price adjustments and it's many varieties–most notably the markdown. That discussion brought up some classic retail principles and some newer techniques to liquidate markdown inventory. We examined how pricing strategies could support business objectives such as growing revenue, increasing profit or penetrating into a new market. Finally, we came to the discussion of KVIs and KVCs, their origins and how this comprehensive business strategy can impact retail pricing.

This takes us back full circle to the beginning of this module when we were contemplating our candy store business, confronted by a bewildering set of business questions about competition, consumer behavior, demographics and location. At that point we really had no idea where pricing strategy even fit in to the overall business plan. Hopefully after our subsequent discussion in this module, that issue is not as daunting as before as we now know a bit more about what we do not know.

MODULE 13: RETAIL IMAGE: LAYOUT AND VISUAL MERCHANDISING

WHY IT MATTERS: RETAIL IMAGE: LAYOUT AND VISUAL MERCHANDISING

Visual merchandising is the way a retail store speaks to its shopper. It may not be the only way, but it's a very important way.

Visual merchandising engages the customer. A retailer can use bold colors to draw attention, light a product in a way that makes it attractive, set it up so a shopper can touch it and feel it. He can set up his store so that the shopper walks by many products, sees things he might not have come in to see, and, as a result, buys things he didn't come in to buy.

Visual merchandising helps to organize the store for the customer. There's nothing more frustrating than walking into a store and not being able to find what you need.

Visual merchandising helps to define the store's brand. If you walk by a window display at Bergdorf Goodman in New York, what you see is not telling you that you'll find deep discounts inside. Similarly, if you walk into a TJ Maxx, you'll visually pick up on the cue that they sell name brands at low prices by the way the merchandise is presented.

Visual merchandise helps create a store experience. You want your shopper to feel a certain way about your store. If they get the creative vibe, the "clean and neat" vibe, the young and funky vibe…all of those feelings inform the shopper's store experience, creating something memorable, engaging and fun.

Visual merchandising influences and helps the customer see what "can be" versus what "is." A customer makes up to 80% of his shopping decisions while he's in the store. By grouping merchandise together to show how items can be used together, or how it can be paired with other items, increases the probability of add-on sales.

This is a retailer's time to influence the customer and make more sales. More sales means more margin and more profit. And that's why visual merchandising matters.

INTRODUCTION TO STORE DESIGN

As a store owner, it would be great if you could be standing at the door every time a customer enters. You could greet that customer, tell him you want him to feel welcome and relaxed, and show him all the products you're most interested in selling him. You could point out that, if he purchases gadget #1, he should definitely purchase gadget #2 to go with it, as owners usually find the two work well in tandem. And does he have a widget? No? Well, there's a topic of discussion on the way to the cash register…

That would be nice, but it's not possible a lot of the time. So a good store layout does the hosting for you. It draws your customer in, perhaps introduces him to products that he didn't know he needed. It informs the mood of the customer, draws his eye to merchandise in a way that influences shopping decisions, and, in general, allows him to experience the store in a way that encourages buying.

Shoppers make up to 80% of their purchasing decisions while they're in the store.1 Store design – everything from the height of the shelf to the carpet on the floor – can help influence those shoppers in a way that's favorable to the sale.

In this module, we'll learn the general types of store layouts and the messages they send to the customer. You'll learn how a store design can influence sales and control your costs.

DESIGN AND THE SHOPPING EXPERIENCE

Before we even start talking about store design, we should go over a couple of customer behaviors that inform those designs. Mainly,

- Shoppers walk counterclockwise – Every time you enter a mall, a supermarket, the corner store, you will veer to the right if you're able. It's just what people do.
- Shoppers avoid upper and lower floors – In fact, shoppers really enjoy staying on the same floor they started on when they entered the store.
- Shoppers hate narrow aisles – In most cultures, that is. If customers have to pass each other at an uncomfortably close distance, they won't go down the aisle.
- Shoppers need to "orient" themselves – Referred to sometimes as the "transition zone" or "decompression zone," this is the area where a customer gets used to the idea that he or she is in a store. It's where they stop to see which way they might go. Usually there are shopping carts and

welcome signs in this area, but not much else, because customers aren't yet ready to focus on the shopping experience.

If your store design were to go against the grain of those customer idiosyncrasies, you'd already be at a disadvantage.

A store layout will show the size of each department, any permanent structures, shelving and other fixtures, and even customer traffic patterns. Let's talk about a couple common layouts we see retailers using today, and how they affect the shopping experience.

Grid Layout

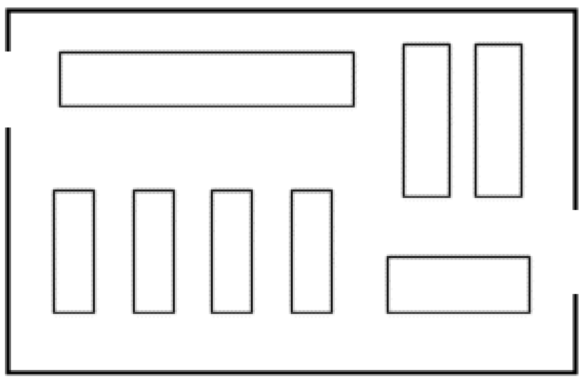


Image source: https://www.thebalancesmb.com/types-of-store-layouts-2890503

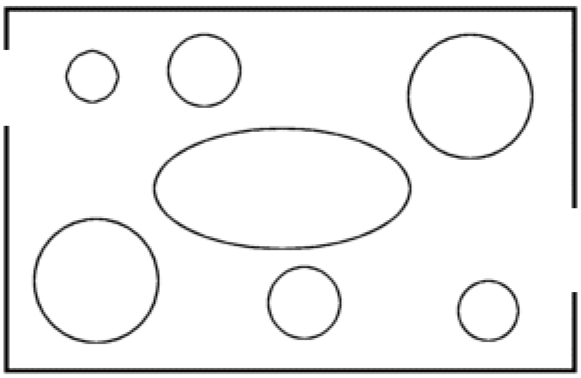
The grid store layout maximizes retail space and allows for the use of the walls, corner spaces, and any purchase retail displays. New store owners will often start with a grid display for their stores because it's also the most economical choice – it makes use of everything in your store.

The grid store layout can be found in drugstores, like CVS and Walgreens, because they can pack a lot of products into the space. The drawback of the grid plan is that it usually interferes with a customer's line of site, which is why you'll often see aisles numbered and signs hanging from the ceiling, indicating which products can be found. On the other hand, the grid format doesn't have to be used to "pack products in." In fact, Apple uses the grid format to display their minimalist product line…and to great effect.

Grid format layout in a CVS (Source: http://fortune.com/2015/10/20/cvs-self-check-out-stations/)

Grid format layout in Apple Store (Source: https://theultralinx.com/2014/01/5-beautiful-apple-stores-world/)

Angular Layout



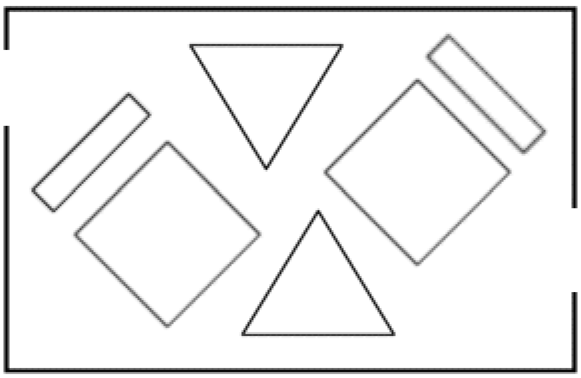
An angular store plan is best used for high-end products and a minimal inventory, because the display itself takes up a lot of space. Curved fixtures are set up in different areas of the store and show off only a few of a particular kind of product, sending the message to customers that it's the last one of the bunch and they should "buy now!"

Jewelry stores and high-end clothing stores are most likely to use an angular store layout.

Angular Store Layout in Versace retail store (Source: https://www.elitetraveler.com/features/new-versace-flagship-store-to-open-in-hong-kong)

Angular store layout in Tiffany & Co. Boutique (Source: https://www.architecturaldigest.com/story/tiffany-co-new-york-soho-boutique-store-article)

Geometric Layout



If “hip and trendy” is the message you’re trying to convey, or if Millennials are your target customers, then the geometric store layout may be the answer to your prayers. You can get an interesting, not-so-ordinary effect without breaking the pocketbook.

Most of the time apparel stores are going to use the geometric store design, positioning fixtures at odd angles to achieve an interesting affect.

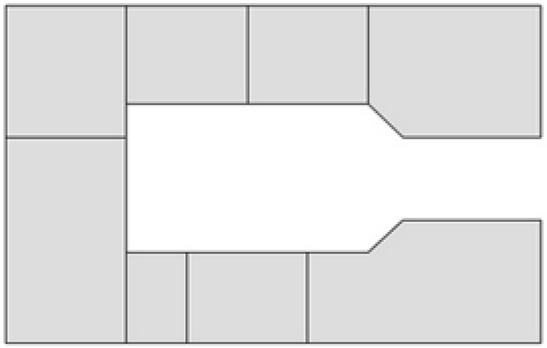
This department store uses a geometric store layout. (Source: https://www.pinterest.com/pin/273171533617466554/?lp=true /)

Other layouts

Diagonal Layout

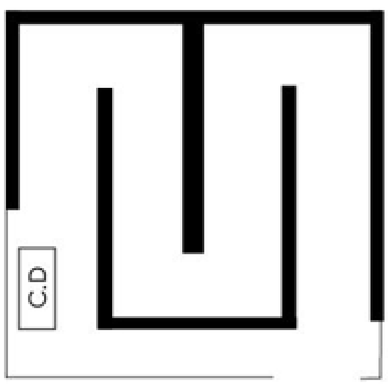
In a diagonal layout, a retailer can still maximize wall space to display product the way he can when he sets up in a grid layout, but this solves some of the line-of-sight issues the grid format poses. Upon walking in, the customer can actually see a lot more product.

Racetrack (or "Loop") Layout



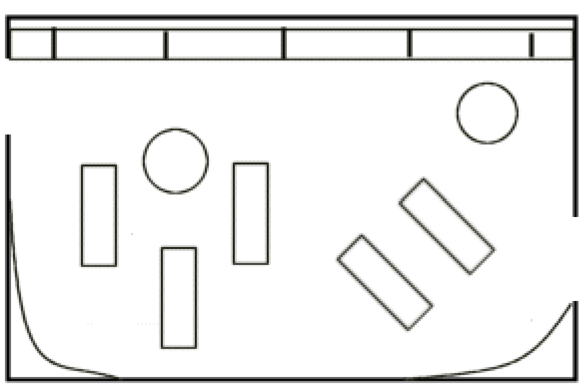
In a racetrack, or loop, layout, the customer enters the store and follows the path around the store, eventually returning to the front of the store to check out. Borders Books, now defunct, used the racetrack layout in their stores, which is not uncommon in large book stores. Bed, Bath and Beyond uses a racetrack layout very effectively. Often, department stores will set up each floor in a racetrack format, allowing customers to visit different departments along the way. Sears has a definite racetrack loop in most of its stores.

Forced Path Layout



This is usually not a customer's favorite kind of layout because it does not allow for customer-driven shopping decisions. Every once in a while, though, a retailer uses the forced path layout to its maximum potential.

Mixed (or "Free Form") Layout



Suitable for almost any retailer, mixed layouts allow you to borrow the best from all of the layouts to highlight your products. Target is an excellent example of a store using a mixed layout – grid in their grocery area, but geometric and angular in others, depending on the product being displayed.

Each one of these layouts sends a different message to the shopper and promotes a particular kind of shopping experience. A retailer has to consider the type of product being sold and the amount of inventory being displayed, the target demographic, and the budget he has to work with before he can determine which is the correct layout for his store.

Source of diagrams:

https://www.thebalancesmb.com/types-of-store-layouts-2890503

https://www.slideshare.net/prithvighag/retail-store-layoutdesign-and-display

https://sisylil.wordpress.com/2014/02/10/whats-you-store-layout-have-you-got-one/

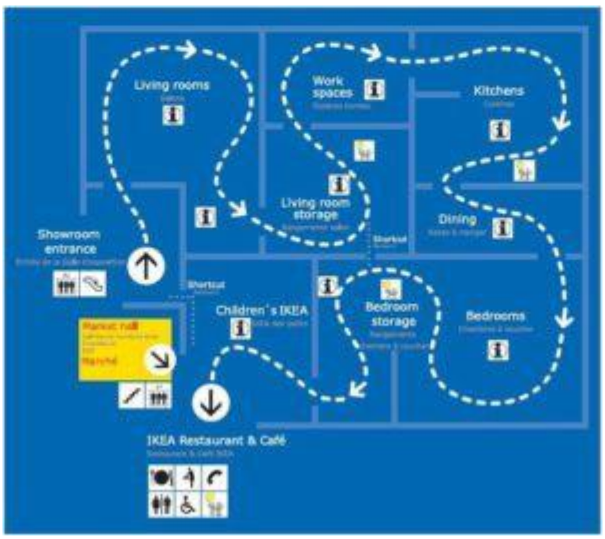
DESIGN AND SALES

IKEA: A Case Study in Leveraging Store Layout to Impact Sales

We mentioned in the last section that the forced path layout is not the most logical or pleasant shopping experience for the customer, who more often likes to wander around at his leisure, looking at the things he wants to see, when he wants to see them. Imagine, for instance, if your grocery store was set up in a forced path layout. You'd have to go through the baby food section even if you didn't have kids. You'd go past alcohol even if you weren't a drinker, and through the junk food section even if you were on a diet. No one wants to waste their time on a forced path layout, right?

IKEA begs to differ.

In fact, IKEA breaks all the rules, and yet they win in the end.



Source: https://www.pinterest.com/pin/438326976202989296/?lp=true

We learned that customers like to shop on the same floor they entered the store on. Not at IKEA. Almost always, a shopper enters the store and is shepherded right up an escalator to the second floor, like in the diagram above.

We learned that customers also like to start out going to the right. Not at IKEA. Left is okay at IKEA. Clockwise is also very okay at IKEA. In the diagram above, people head to their left and start their way around the display showrooms. And, before you question it…you almost never see people going in the opposite direction of the suggested path. That's not okay at IKEA.

Finally, we learned that people like wide aisles, which IKEA features in their paths…but not in their room displays. And yet, in an IKEA display, people will gather three and four deep to marvel at how the Swedish can live so economically in such a small amount of space.

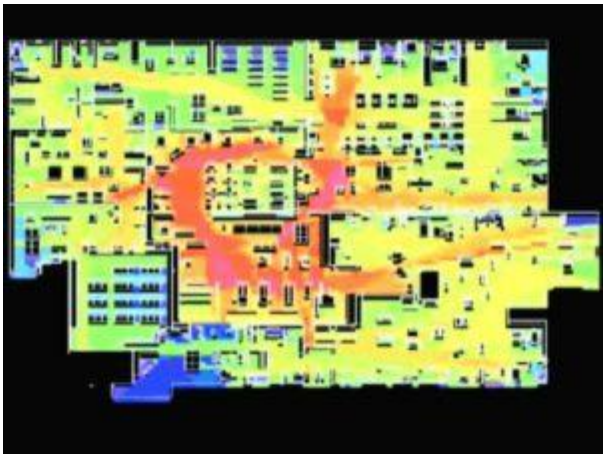
IKEA breaks all the rules, and yet it provides a shopping experience beyond all others. Shoppers clamor for it. So why does this forced path floor plan work for them?

Alan Penn, director of the Virtual Reality Centre for the Built Environment, claims, "IKEA's store layout is a psychological weapon used to confuse and disorientate (sic) shoppers into spending more."

At first blush, you may not think such a thing is even possible, but it's absolutely true. Think about the simplest form of that: You find something you like as you're wandering through the maze of rooms, and you're afraid to put it down for fear you may not find it again. You carry it around with you, and then finally buy it, because you still have it with you when you reach the checkout area.

This also holds true for the flat-packed furniture the customer will pick up later in the warehouse. As they roam the IKEA offerings in the showroom, they can't pick up the item right where they see it. They have to grab a slip of paper and write down the location of that item in the warehouse, which is the second part of the IKEA experience. Which table does the customer want? Well, maybe this one, maybe that. He writes them both down, and then finds they're so inexpensive when he gets to the warehouse that he buys both. At this point, he's seen how adaptable the piece is. It was shown to him being used in four different rooms.

The "people following each other" in the forced flow format allows for every area of the store to be shopped. This heat map, also provided by Alan Penn during his lecture, shows that every part of the store experiences uniform foot traffic. As we well know, merchandise not seen is merchandise not bought. Almost nothing is unseen at an IKEA.



Source: http://www.businessinsider.com/this-heat-map-reveals-the-secret-to-ikeas-store-design-2014-1

Finally, to get to the part of the warehouse where you buy the flat-packed furniture, you have to go through a "marketplace" of deeply discounted items, everyday items like napkin holders and light bulbs, casserole dishes and martini glasses. The price is a compelling enough reason to add them to your basket, but again, the forced flow is making a play: shoppers grab them because they don't want to buck the flow of foot traffic, they don't want to have to go back and find it.

IKEA's unconventional choice of layout impacts their sales very positively, so much so that they have over 250 stores in 26 countries, and their profits are in the billions.

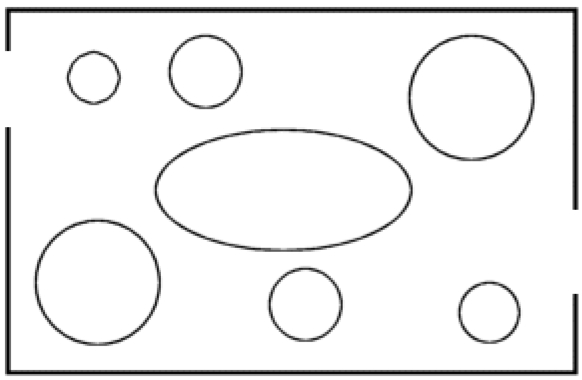
If you'd like to hear Alan Penn's full lecture on the wonders and mysteries of the IKEA shopping experience and how store design play a part, you can check it out here:

https://youtu.be/NkePRXxH9D4

DESIGN AND COSTS

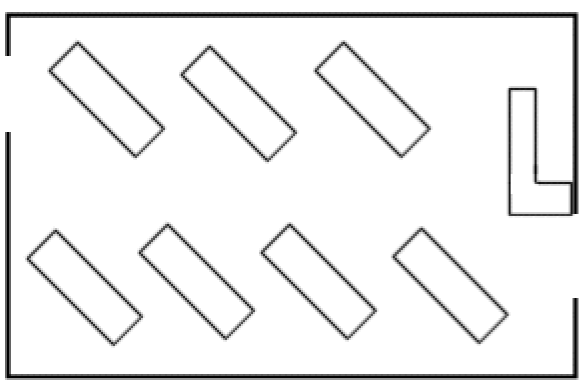
If a store layout can drive sales, it can also help you control your costs. Let's take a look at a couple of examples:

Angular Layout



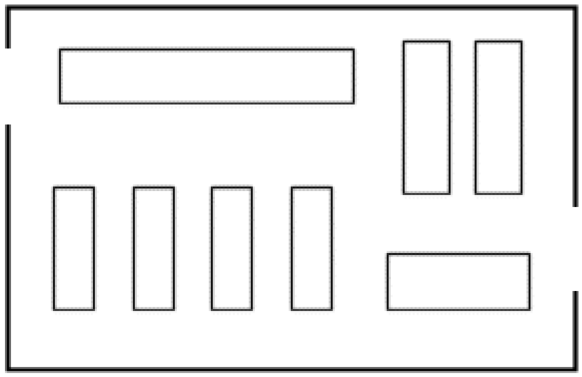
An angular layout can help you control inventory costs. As we mentioned above, angular layouts allow for the display of a minimal amount of merchandise and is particularly good for high end clothing and jewelry. While the fixtures to display the merchandise are likely going to be more expensive, this also means that you have to have less merchandise on hand. When you sell diamonds or fur coats, this is a plus. As a retailer, you don't want all your cash flow tied up in the merchandise on you floor, particularly when the price point doesn't allow it to move as quickly.

Diagonal Layout



We mentioned that the diagonal store layout allowed for a maximum amount of merchandise to be displayed for the customer but it also improves the customer's line-of-sight, allowing him to see much more when he enters the store. The same holds true for the cashier, who, when placed at one end of the store, can see more merchandise and customer activity. This allows for easier monitoring of shoplifting and theft. Shrink (the term retailers use for lost, stolen, or damaged product) is a significant concern for a retailer.

Grid Layout



Grid layouts allow for maximized promotions. You'd think that a retailer can decide if he or she is going to offer a product at a certain percentage off, but that's not always the case. Manufacturers frequently "sponsor"

promotions with additional cash to help move their product. They pay for premium "real estate" within a store in order to prominently display their products. This saves the retailer the cost of putting the item on sale himself.

The grid layout allows for predictable focus points, allowing you to display promotions in spots where you know they'll be seen. This allows the retailer to maximize profits and make use of that money manufacturers offer to minimize their margin losses.

The racetrack layout is also an excellent format for maximizing promotions.

INTRODUCTION TO STORE LAYOUT

A retailer measures so many things: the average ticket sale for each customer that comes through, the sales per square foot of the store, the penetration of particular product brands, and more. But one thing matters more than any other – customer foot traffic. None of those other metrics matter if you can't get a customer in the door.

In the last section, we talked about the different kinds of store layouts and the products that are best displayed in them. Now we're going to talk about traffic flow in a store, how ignoring our four customer behaviors can make or break a sale. A happy, relaxed customer who's engaged in the shopping experience will spend more, and a confused, disoriented customer will leave.

CUSTOMER SHOPPING BEHAVIORS

We've talked about store layout – that is, how your store is physically constructed to serve the customer. Now we're going to talk a little bit about customer traffic-flow patterns, or how your customer walks through the store.

Remember that customers can only buy the merchandise they see. If your layout doesn't encourage them to move past the merchandise you have on display, they aren't going to buy it. Or, as they say in retail, you won't see sales conversion for those products.

This is a good time to remind you about those customer behaviors we discussed in the last section:

- Shoppers enter and almost always turn right, walking counterclockwise
- Shoppers avoid upper and lower floors, they like to shop the floor they entered on
- Shoppers hate narrow aisles
- Shoppers need to "orient" themselves before starting to shop the store

Any part of your store layout that doesn't serve these four customer behaviors in mind is going to fail you.

Let's take a look at a store layout and a heat map of its traffic flow.

Source: Ebster, Claus & Marion Garaus. Store Design and Visual Merchandising: Creating Store Space that Encourages Buying, Figure 1.5

It appears this store is mostly a grid format, with a little free form or "mixed layout" going on near the entrance to add some visual interest. Is this layout working for the retailer? Let's take a look at those customer behaviors and see if all of their shopping layout needs have been met.

Does this store allow for counterclockwise walking? It does! In fact, it doesn't give the customer any choice, turning left would be walking into the storage area of the store. They have to go right.

Does this store have upper and lower floors? It's hard to determine from this drawing. We'll say no.

Does this store have wide enough aisles? It would appear not! Look at the area that's circled. The fixtures there are set quite close together. And the heat map shows that customers aren't going back there. The merchandise the retailer has displayed there is going unseen by customers (and is therefore not purchased).

Does this store have a “transition zone”? It absolutely does. The area right after the entrance is open and clean, and the first fixtures aren’t for another few feet.

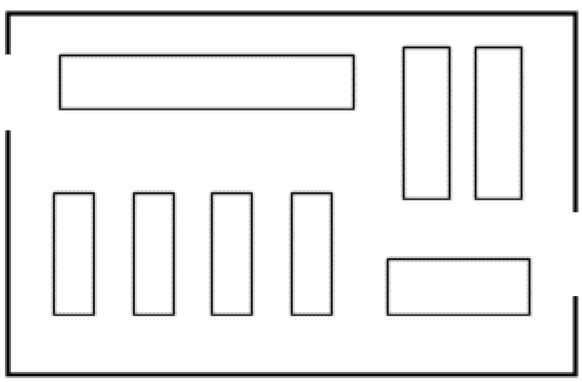
This quick analysis lets us know that the retailer’s customer traffic flow through the store isn’t what he hoped in certain areas, and he’s maybe not converting as well as he could be. We know that customers aren’t going back there because they don’t want to shop in tight spaces, so traffic flow could be improved by removing a fixture and making the area easier to walk through.

In the next section, we’ll study some examples of store layouts and how a retailer can leverage those layouts to influence customer traffic flow and increase sales conversion.

STORE LAYOUT DESIGNS

Each store layout has its pros and cons, and each layout provides a retailer with some ways to influence traffic flow. Here we’ll look at a couple of different layouts, what the pros and cons are for shoppers who are experiencing this type of layout, and some ways that retailers can maximize their sales conversions.

Grid Layout



The grid layout is the most common store layout you’re going to find in retail. Used in supermarkets, drug stores, and many big box retail stores, it’s used when stores carry a lot of products (particularly different kinds of products), or when a retail location needs to maximize space.

Some pros of the grid layout:

It’s easy to categorize products

Shoppers are used to the grid layout style and shop it easily

Some cons of the grid layout:

It’s boring, and it’s difficult to use this layout to create a “shopping experience” for the customer

Customers often can’t take shortcuts to what they need

Line of sight is limited, forcing a customer to look up and down aisles

Visual “breaks” are needed to keep shoppers engaged

That said, the grid format is so common in retail that it’s been well studied and retailers know how to leverage it to increase sales conversion. Here are some ways they do that:

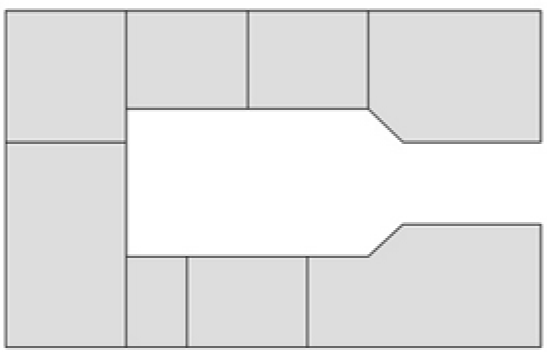
Well placed promotions – Eye level and a little to the left, in fact. If you’re walking through a grid format store counterclockwise, you’re going to notice that which is a little ahead of you. On a turn, that means the promotion will be at eye level and a little off to your left, where you’re looking as you walk. Things don’t get noticed in corners.

Power walls – Because you can leverage your wall space so well in a grid format store, you can take advantage of this to build power walls. Power walls allow you to display merchandise to draw shoppers into an area they might otherwise skip over in normal traffic patterns. Retailers use repetition by putting a LOT of a particular product on the wall, perhaps in different colors or sizes. Here’s a great one-minute video about power walls:

https://youtu.be/jUCNjPhKSGo

End caps and visual displays – Aisle fixtures have to end, and usually the ends of those aisles are prime real estate to put up a product display. We’ll learn more about these in the next section, but suffice it to say, you have more opportunities to leverage the ends of those aisles with displays and signage in this format than any other.

Racetrack or Loop Layouts



If you’re selling a product that people want to browse, touch and look at, then the racetrack, or loop, layout is one to consider. Customers follow a prescribed path through the merchandise and experience it the way the retailer wants it to be seen.

Some pros of the racetrack layout:

Retailers can provide a great “shopping experience” using this layout

Promotions are easier to execute, because the layout really controls what the shopper sees

Encourages browsing

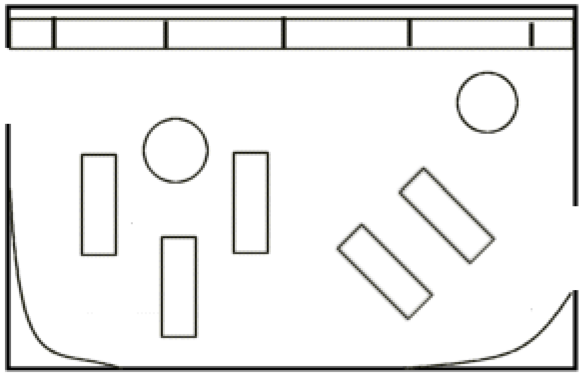
Some cons of the racetrack layout:

Customers who want to run in and pick up something quickly are often discouraged when faced with this layout

Not a good layout for a high-turnover store, like a pharmacy or a convenience store

In this kind of layout, the retailer doesn’t really need to influence traffic flow, because traffic can really only move one way. This is what makes the layout so perfect for executing promotions. The retailer knows where the shopper is going to look next, and promotions are arranged accordingly – eye level and a little to the right.

Mixed, or Free Flow, Layout



This layout can be anything the retailer wants it to be, in any shape or place. Customer behavior is the only consistent aspect of this kind of layout: we know they will enter and turn right, we know that they won't want to go up or down a floor and that they won't shop in too narrow an aisle.

Pros of the mixed layout

Ideal for a store offering smaller amounts of merchandise

Easy to create a shopping experience in this layout

Cons of the mixed layout

Less space to display product

Easier to confuse the customer

Traffic flow can easily be disrupted if there isn't some logic to how items are displayed in the store, and if that logic doesn't exist, it'll create shopper confusion. Confused shoppers exit the store nearly immediately and usually without purchasing anything.

Retailers can control traffic flow by placing promotions and visual displays as "speed bumps" can entice the shopper from one merchandise "lily pad" to the next. Power walls can be created in this format to attract the shopper as he or she moves along the store. If customers are missing a part of the store, retailers can alter traffic flow by altering the fixtures within to create a new path.

PRODUCT LAYOUT

An excellent cut of bacon and some fresh eggs off the farm…each of those is an example of good grocery store merchandise. Displaying some of that bacon near the eggs in the refrigerator section of the grocery store…that's an example of good grocery store merchandising.

You can have all kinds of great product in your store, but if you don't organize it logically and attractively, it won't sell.

Retailers use layout groupings to help the shopper find the product he wants – and maybe a few products he doesn't know he wants. You don't see Lowe's or Home Depot selling paint on one side of the store, and then selling paint brushes on the other side of the store. That would confuse the customer and waste his time. Good merchandising means displaying your paint near your paint brushes, rollers, tape and trays. The customer might come in for paint, and then decide to pick up a new brush while he's there. He might have forgotten the tape if he hadn't seen it. And he has a paint tray, but that new one looks pretty slick…so he picks that up, too.

Before we take a look at some common merchandise groupings, let's take a moment to learn the three rules of visual merchandising

1. Make merchandise visible – what isn't seen, isn't purchased.
2. Make merchandise tangible and accessible – customers want to see and touch before they purchase.
3. Give customers good choices – but not too many choices. Shoppers purchase more when they have fewer products to choose from but a nice selection.

Considering these rules, we'll look at a few different ways merchandise can be displayed to its best advantage, giving consideration to those three rules above and helping increase sales conversion.

Bundled Grouping

Bundled presentations of merchandise allow for a group of like items to be presented together, because they can be purchased together. IKEA does this magnificently. Rather than putting all their couches together, all their desks together, they set up rooms full of their furniture pieces. When a customer walks through, they can see all the products working together.

This is how it works: You, the customer, come upon the display. Is that room about the size of your room? It is! Would that coffee table work well in your living room, given it's the right size for the room and the right color? Why, yes! And you weren't looking for end tables, but because you see them there, it seems like a good idea to pick them up while you're there.

Bundled presentations don't always come in the form of fully furnished rooms. You also see them at the grocery store, when they're showing off their wine in a basket with bread and cheese. You're not buying that basket, of course, but you're picking those items off a shelf nearby.

Source: https://inhabitat.com/nyc/photos-see-inside-the-tiny-391-sq-ft-model-apartment-at-the-ikea-brooklyn-store/

Complementary groupings

Complementary groupings (often referred to as “cross-merchandising”) are similar to bundled presentations in that they sell different items that go together. But they’re sold adjacent to one another, not necessarily as part of a separate display. They can be grouped right on the shelves.

This is how it works: You, the shopper, head into the grocery store to grab some pancake mix. While you’re picking it off the shelf, you see the bottles of Vermont maple syrup placed right next to it. You pick up one of those, too.

The eggs and bacon, and the painting equipment, are examples of complementary groupings. Birthday cards and wrapping paper, mobile phones and chargers, flashlights and batteries, all of them are complementary groupings. Without the merchandising grouping, one might run in and buy the birthday card and forget the wrapping paper, or buy a new mobile phone and pick up a charger for the car, even though it wasn’t the shopper’s original intention.

Source: https://www.fixturescloseup.com/2013/03/06/6-foot-coffin-case-bridge/

Prop groupings

Mannequins are perhaps the most commonly used “prop” in merchandising. Outfits are created on the mannequin and then tables or racks of that merchandise are grouped around it so shoppers can buy what they see. Mannequins can attract shoppers from a distance away, standing like a beacon over other fixtures in the store. Used wisely, they’ll pull shoppers into areas they might otherwise skip in the normal flow of traffic around the store.

This is how it works: You, the shopper, are headed through the department store to purchase a new pair of running shoes. On your way, you see a mannequin wearing a pair of fabulous biking pants. You stop and check out the displays around the mannequin and find your size. You find you also like the jacket the mannequin is wearing, and it matches the pants perfectly. It goes home with you as well.

Mannequins aren’t the only kind of props to be found in a store. Wine stores frequently use barrels to display their merchandise. Natural baskets might be used to display vegetables in a grocery store. An inflatable palm tree might be used to draw attention to a table of suntan lotions in the middle of a northern winter.

Groupings of products positively impacts sales conversion. Putting like products together helps shoppers buy everything they need – it takes the hassle out of their shopping experience and tempts them with items they weren’t necessarily looking for. Bundling them and using props helps the shopper see the product “in action.” They can envision the product on their person, in their home, and see how good it’s going to be.

INTRODUCTION TO REWARDING SHOPPING EXPERIENCES

A store layout determines how your merchandise will be displayed and how your shoppers will move through your store. But add all the environmental elements – from the flooring to the building materials to the lighting – and then you're starting to create a shopping experience for your shopper. Help your product along with some balanced, artistic displays, and you'll be converting sales like a master.

In this section, we'll talk about the goals of different product displays and their best uses, and how you can set up your store environment to further enhance your shopper's experience and engagement with your merchandise.

STORE EXTERIOR

A retailer has a new brand of mustard that he wants to promote. In fact, the manufacturer of the mustard has given him a few promotional dollars to get the product out in front of shoppers. The retailer can either use the money to give shoppers a 10% off coupon to try the new mustard, or he can put together a nice merchandise display.

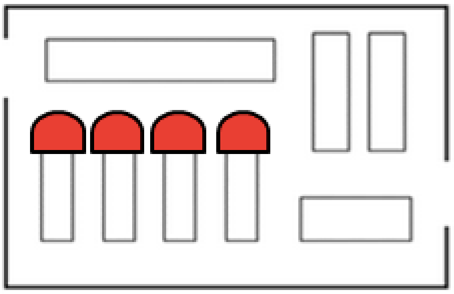
He decides that he wants his shoppers to really notice this new mustard, so he puts together a display. And it works well – the mustard flies off the shelf. Visual merchandising has done its job, even better than a coupon. In fact, one study suggested that, when trying to get customers to switch brands, good visual merchandising was approximately equal to a 15%-30% price cut.1

If that's true, the retailer just made more money than he would have if he'd offered his shoppers that 10% off coupon.

The power of displays is pretty formidable. Let's take a look at some of the common merchandise displays you see in retail stores, and what their goals are.

End Caps

Commonly found in grid layout stores, at the end of those very square aisle fixtures, you will find end caps. A lot of the time, they look like this:



That end cap might be a short set of nesting tables (a series of two or three tables that fit under each other) or a cardboard shelving structure provided by a manufacturer, or just a series of shelves to show off products. Often, end caps are used to promote a single brand in a store. Particularly in grocery stores, manufacturers will pay for that space and retailers will highlight their products in an end cap feature. This end cap featuring Pepsi is an excellent example of that.

Source: https://p2pi.org/update/pepsi-dollar-general-buy-enter-choose-endcap

In other cases, retailers can leverage that space to celebrate a season. In the grocery store industry, Thanksgiving is a pretty important season, and the endcap below features items that the shopper will need for her Thanksgiving celebration. These manufacturers may have paid a small fee for the space, or the retailer may have created it on his own.

Source: https://www.creativedisplaysnow.com/six-inspired-examples-of-sales-boosting-grocery-store-end-caps/

Window Displays

A window display is usually made up of items carried in a store, and they're displayed at the front of the store, in the window, so they can be viewed by passers-by on the street.

The goal of a window display is pretty simple. There are people outside the store, and the retailer wants them to be inside the store, shopping. So the retailer entices those street people by putting his most attractive items out to be noticed. People look in the windows and see items they want, and they enter to purchase. Or, as is the case in many movies and television shows, they see items they can't afford and stop by regularly to admire them.

Stores like Barneys in New York, Bergdorf Goodman, and Macy's have been known to put some creative effort and thought into their window displays, particularly during the holiday season.

Bergdorf Goodman Display (source: http://www.whereartinspiresbeauty.com/bergdorf-goodman-window-displays/)

Of course, window displays aren't just for the outside of buildings. Mall stores also use window displays to beckon prospective shoppers into their stores.

Promotional Aisles and In-Aisle Promotions

Stores like Target and Meijer, who are primarily grid format stores, will often dedicate entire aisles to promotional items. The trick of these aisles is that the items in them usually do not feature items normally carried in the store at discounted prices. Usually these aisles carry products that were purchased for the sake of stocking the promotional aisle. They might feature a huge dump bin of flip flop sandals and a shelf of citronella candles at the start of summer, or stuffed snowmen and wrapping paper during the holidays.

Promotional aisles are basket builders – products that you hope shoppers will buy to add a little extra to your bottom line.

A promotional aisle in a retail store (source: http://www.fifth.us.com/a-proliferation-of-promotions/)

In-aisle promotions are another tool that stores with grid layouts commonly use. If an item is on sale, it's often marked accordingly with a tag showing its sale price right on the shelf, like the example shown in this photograph:

Rite-aid (source: http://www.frugallivingnw.com/rite-aid-the-game-tags-on-the-shelves/)

This is a common practice in many stores, particularly those that feature a weekly or monthly ad sent direct mail to homes. It's a team member's full time job to take down and put up those tags.

When a retailer wants to call out an item on sale in an in-aisle promotion, he can use a shelf talker. A shelf talker sticks out from the display fixture, usually sitting perpendicular to it so that it faces the customer. It sends a little message to the shopper, saying, “New Product!” or “Sale!” In the case of this shelf talker below, the retailer is leveraging a “complementary grouping” approach by reminding people to get their flu shots where they sell their pain relievers.

Source: http://www.thesellingpoints.com/2014/10/cvs-pharmacy-shelf-talker.html

Shippers/Manufacturer Displays

While often referred to as point of sale displays, these “shippers,” or manufacturer displays, are often displayed in wide aisles around a store. They’re provided by the manufacturer to draw some extra attention to their product. The shipper below is for Crispello, and is destined to be stacked with that extra case the manufacturer sent along with it. The goal of this display is to stop shoppers as they progress along their normal traffic flow pattern in the store, make them pause and say, “Oh! Crispello!” After that, they hopefully purchase a bag or two.

Sometimes, shippers are used to do a complementary bundling, or cross-merchandising. A retailer may have deli meats on display in the refrigerator section, and he may place a shipper of pickles nearby to facilitate add-on sales.

Source: https://www.promosigns.co.uk/point-of-sale-displays-london/

Dump Bins

Dump bins are a favorite of the bargain hunting shopper, and indeed, you won’t usually find them in a high-end store. They’re meant to give the shopper the impression that an item has been deeply discounted. Shoppers don’t expect anything fragile or high quality to find its way into a dump bin, because they’re meant to be rummaged through.

If a single product is featured in a dump bin, usually it's in several different colors or styles. Going back to flip-flops on sale for the start of summer, you might find pink ones and blue ones and ones with beach ball prints…you get the idea. In the photo below, Wal-mart is using a dump bin to sell a variety of DVDs. The customer has to go in looking to see what's in there. In this case, the dump bin itself helps a little bit by displaying the covers of the DVDs down at the bottom, but shoppers will still go through and see if there's anything else there. You never know!

Wal-mart Dump Bin (source: http://www.flickriver.com/photos/fourstarcashiernathan/4562704086/)

Point of Sale/Point of Purchase Displays

The Point of Sale (or "POS") is the last effort to sell a little something more to your shopper. Point of sale displays have been vilified by mothers everywhere, as candy bars, gums and mints are a common find at checkouts, even in bookstores and pet stores! But point of sale displays aren't just for kids – retailers will try to attract adults with various magazines and tabloids, and even batteries and other small items they may have forgotten while shopping.

Some retailers make point of sale displays that act as queue managers. Joann and Home Goods are among those that wind their lines of shoppers through shelving fixtures that sell everything from candles to key rings.

Cardenas point of purchase display (source: https://www.pe.com/2016/09/20/why-impulse-items-at-cardenas-checkouts-are-going-healthy/)

Retailers seem to be finding new ways every day to display their merchandise in the store, but these methods are well-known, well-researched and known to work. Now let's talk about the benefits and drawbacks of each.
1Allenby, Greg M. and Peter J. Lenk, "Reassessing Brand Loyalty, Price Sensitivity, and Merchandising Effects on Consumer Brand Choice," Journal of Business and Economic Statistics, Vol. 13, No. 3, July 1995.

PRESENTATION TECHNIQUES

Every display method a retailer uses for his merchandise has its benefits and drawbacks. When choosing a type of display, one should consider if the display works for the type of store layout and the kind of environment you've created for the shopping experience.

Let's look at each type now and determine where it will succeed and where it might fail.

End Caps

End caps are very successful in grid layouts. Grocery stores and big box retailers use end caps to promote brands and celebrate seasons in their stores. They're eye catching, and the space is easily "leased" to manufacturers that want to promote their brand.

The drawback of an end cap is its ability to be seen. If aisles end too close to a wall, the end cap may make walking space too narrow. And depending on where the aisle ends, the shopper may not even turn toward it as she follows her traffic flow path through the store.

Window Displays

Probably the most fun a merchandiser will have is creating a window display – it's artistic and expressive and fun, and retailers can leverage your window space to tell outsiders what they can expect in their stores. Funky and hip? Serious and elegant? Your store window starts telling the story of the shopper's experience before she's even inside.

The drawback is that your window display, while taking up quite a bit of square footage at times, doesn't always move product. The mannequin that wears a pink sweater might attract the shopper to come in the door, but because the product can't be displayed adjacent to the mannequin in the window (and shoppers can't go in there and browse), it's not always going to sell your merchandise directly.

Promotional aisles

This is the space you trip over when you walk into Target or Meijer, that little cove of space they didn't know what else to do with. They filled it with junky stuff and put a bunch of bright colored signs up so the customer can shop it and get excited over the big values he's finding. People often come just to shop these areas – they need trinkets for an event or they want to buy the kids something fun. They can be a draw for a shopper all by themselves.

The drawback of the promotional aisle is that it doesn't really work for every kind of retailer. Target can use it well, but a Chanel store isn't going to have one of these types of displays. And not every retailer wants to convey "cheap fun" as a part of their brand statement.

In-aisle Promotions

A store with a grid layout will almost always use an in-aisle promotion. Why is that? Well, grid layouts are for stores that carry a lot of product, so if a retailer is doing a sale they're not going to be able to give every sale item its own display. Shelf tags and shelf talkers are a great alternative, drawing attention as the shopper browses.

The drawback of this display is that it's not really a display, and therefore not as visible as the other types we're talking about here. And, of course, if the store isn't a grid (or at least a mixed) layout, it's a bit harder to execute – but not entirely impossible.

Shippers

Shippers are great little attention getters in a wide aisle, as they're usually colorful and eye-catching, and stocked full of something the shopper didn't know he wanted. Because you can put them right in a common traffic flow path, they're always going to act like a "speed bump" and slow shoppers down to take a look.

The drawback of this kind of display is that it's cheap. Shippers are usually made of cardboard and shipped flat, and, after a team member struggles for an hour or two trying to get it all put together, they sit out where they're touched, bumped, and abused by customers. You'll never see these in a higher-end store (unless it's a high-end shipper!) On top of that, they take up valuable aisle space, which a small retailer might not have to give.

Dump Bins

Dump bins scream “find deeply discounted items here!” The shopper understands that some amount of effort will need to be spent to find the right size, the right color, the right title, but she dives in willingly, because it’s part of the game. We are reminded again and again that shopping is an experience, and the dump bin is a discount experience all its own.

The drawback is that this type of display implies discount…and not necessarily quality. Higher-end stores may not want to move in that direction because they don’t want to send that kind of message to their shoppers – even if they have a product that would work in a dump bin. Also, dump bins take up a lot of aisle space too, so, like shippers, they may not work for a smaller store.

Point of Sale/Point of Purchase Displays

Point of sale displays get shoppers with that last little item they didn’t know they wanted or needed. Whether it’s a pack of gum or a cooking magazine, retailers get one more opportunity to add to the final ticket.

Even in its drawbacks there are pluses. Moms have forever complained about candy in the checkout aisles at the grocery store, but that gave grocery stores the opportunity to offer something to Moms by having a couple of “candy free” check out aisles. Few retailers miss the opportunity to do this. Those that do…and Apple comes to mind…are offering a different kind of check-out experience.

STORE INTERIOR DESIGN

A retailer’s store layout isn’t the only thing that informs the shopper of the kind of experience he or she is about to have. In fact, everything about the store helps add to the environment of the shopping experience.

The options for interior store design are as limitless as the imagination of the designer. There can be neon signs or natural wood, industrial looking ceilings or LED lighting.

Some retailers go out of their way to provide that experiential moment, and it’s not always directly related to shopping. Some interesting elements to add to the shopping experience might include the mall in Dubai that features a 2.6 million gallon fish tank at its center. That might seem odd, but it’s already caught on. The Great Lakes Crossing Mall in Auburn Hills, Michigan, also features an aquarium as part of the mall shopping experience. As malls start to fall out of favor, we’ll likely see more retailers pushing for interesting solutions that use empty mall space and attract shoppers, like this one.

https://www.cnbc.com/2012/04/19/Unusual-Retail-Experiences.html?slide=2

Bass Pro Fishing shops put nature on display for their shoppers. Each of their stores is designed to reflect nature in the store's location. And not only do nature lovers come in to enjoy the display, they purchase tents and fishing poles and other items to facilitate enjoying the real thing.

Kids come in school busses to see what is essentially a natural history museum within the store. People have gotten married there. And all of that is probably pretty good for business.

These are drastic store environment examples, and most of the time you won't find anything quite like this. But they're excellent examples of why you have to think about your store environment. You want your shopper to have a reason to come to your store. It's a bonus if you have shoppers that want to get married there.

So where can you start your store environment study? How about under your feet?

Flooring

The flooring in a store makes a statement in the shopping experience. Is there carpet? Tile? Wood? A carpeted store is usually quiet, allowing for the shopper to have a quiet, serene experience with the merchandise. Tile, cement or wood will be a little louder.

Tile allows a retailer to bring in brand colors and demarcate different areas of a store. Perhaps the tile changes when the shopper moves from department to department. A toy store might have pink and blue tile in an area

where baby toys are sold, and then the boy's department becomes a bright red and blue as you move from soft plush to Tonka trucks.

Wood flooring sends a "natural" or "outdoorsy" message. A pet store owner once decided to highlight all his natural food offerings in a separate area with a wood floor. When you walked from the tile to the wood, you walked into a higher end dog food area where you could find nutritious offerings without additives or preservatives. Natural. That's what the wood floor was saying to customers.

Painted cement floors are a common find in retail stores today, a nice look for a variety of retailers. The cement can be painted and sealed for easy cleaning (important in states with bad winter weather). It's economical, stylish and versatile.

A combination of these flooring styles can be used to drive traffic as well. Department stores, like Sears, are known for having tile walking aisles and then carpeted browsing areas. The use of different kinds of flooring can help guide traffic flow, especially if the retail location is quite large.

Lighting

Warm light, cool light, natural light, fluorescent light…there's so many kinds of light and so many fixtures to choose from! That said, types of lighting in a retail store can be broken down into four general categories:

- General/ambient lighting
- Task lighting
- Accent lighting
- Decorative lighting

Your general/ambient lighting is the main source of light in your store. If you walk into Wal-mart, you're going to have fluorescent lighting. It's nothing special and, in fact, the message retailers are sending to their customers is exactly that: this is a basic, value-based shopping experience. Grocery stores and big box retailers also use fluorescent light. It's an inexpensive and efficient way to light a large space.

Warm, incandescent light sends customers the message that they're going to have a more intimate, special shopping experience. You'll often see apparel stores using incandescent light because incandescent light shows colors a little more "true" and the shoppers themselves won't look pale and bluish when they're trying on clothes. A clothing retailer wants his shoppers to like how they look in his clothing, and sometimes even if the main shopping area is lit in fluorescent bulbs the fitting areas will be lit with incandescent.

Task lighting is exactly that – a more intense light that helps the store employees get their work done and converse with shoppers efficiently. The checkout or customer service areas may have task lighting.

Accent lighting is where you get creative drawing attention to your merchandise. You can accent a specific area of your store with different kind of lighting – a customer's attention will always be drawn to the area that's different. Products can also be accented – like framed paintings on a wall, or a lamp carefully placed on a display table of books. High-end grocery stores will sometimes light their meats with a slightly red light in their refrigerated displays, and their fish with a blue light. It makes the product more attractive.

Source: https://www.pinterest.ca/pin/484629609885862551/?lp=true

Finally, decorative lighting adds atmosphere to your store. Fixtures that show off sophistication or a little bit of whimsy are going to help inform your shopper on the type of experience he's going to have in your store. Just like the lighting in your house, your decorative lighting should be interesting to look at and in keeping with your store's experiential message.

Walls and Ceiling Colors

Colors influence shoppers' emotions and they can be carefully chosen to influence the shopping experience. Colors also take on certain meanings in different cultures, and, depending on your shopping demographic, the retailer is wise to choose his colors carefully. Indeed, the colors the retailer chooses for her store aren't as important as how her target market will react to them. Younger people respond better to bold colors, and older people like muted tones.

What kind of messages can a retailer be sending in color choice?

Blues are calming. If the product is agitating, painting the walls blue can help keep an atmosphere of calm.

Greens convey freshness and peace. Health stores, grocery stores offering fresh produce, often use greens. Florist shops also can benefit from shades of green in their retail area.

Source: http://mindyafitness.com/3-tips-when-buying-green-at-the-grocery-store/

White can be agitating for shoppers, but it can also convey a sense of cleanliness. Some clothing stores do well with white walls, especially if they are higher end and have fewer products on display. Apple uses white and grays very well in their stores to enhance their brand message.

Pink is an energetic color, and purple is a creative color. Often, these colors are associated with romance and used in shops targeting women.

Reds can make shoppers anxious because it's a very powerful color, but oranges tone those feelings down a bit. In fact, orange stimulates appetite, so food stores do well with that color.

Yellow is a happy color and is often found as the primary color in children's stores.

Other Environmental Elements

Furniture and fixtures also help form the environment and with it, the shopping experience. A retailer can achieve a very industrial look with natural, unfinished shelving and peg board fixtures, or he can go in a different direction with brushed metal and wood to convey elegance.

A wedding dress store might have a curvy, overstuffed couch for moms and sisters to hang out on while the bride tries on and models dress after dress. Similarly, a women's clothing store might have some simple, comfortable chairs outside the dressing room for the spouse that has to wait for his or her better half to try on clothing.

Inside the fitting rooms, a retailer may choose to add a couple of nice pieces of comfortable furniture, or she might just supply a bench to help facilitate clothing changes. There's a message to be sent about the shopping experience in there as well. Even the mirror where she determines if the pair of jeans is a keeper should be well thought through. A long mirror, slightly tilted backward at the top, makes a woman appear taller and thinner. There's hardly a woman that doesn't want to be taller and thinner!

Non-clothing retailers can have a lot to think about, too, when it comes to the message they're sending. The checkout area, for instance, can be very stylized or simple. Even the queue area can make a comment on the shopping experience.

Source: https://fitsmallbusiness.com/planning-your-store-layout/

Finally, a retailer can always add an element of the unexpected in a small but significant decorative item, especially when the customer can engage with it. The owner of a small, independent book store in Ann Arbor, Michigan, was featured on NBC News because of a certain piece of décor he'd chosen to add to the lower floor of his store. At the bottom of the stairway, sitting on the path to nearly all of his non-fiction selection, he placed an old manual typewriter, complete with a fresh ribbon and a piece of paper.

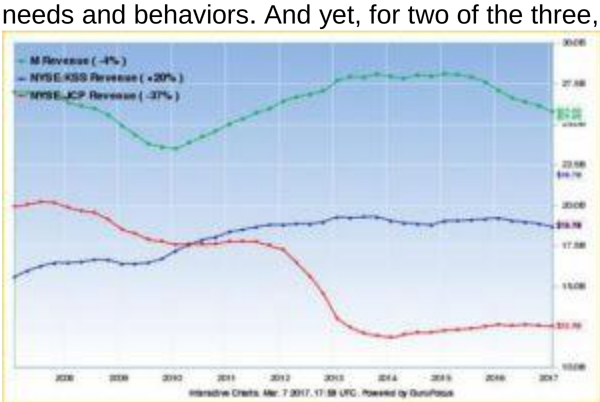
Readers often fantasize about being writers, so it was natural for his typical customer to come in and type a few words. For many, it became a reason to visit, not only to type on the typewriter, but to see what had been written before. On it, they could understand how Hemingway created, they could write things they couldn't say aloud, and they could dream on paper.

Use interior design to fill your store with experiences.

https://youtu.be/Zpw6HMRvCnI

INTRODUCTION TO ATMOSPHERE IN WEB RETAILING

Consider Macy's, Kohl's, and JC Penney. They are three huge names in retail. Two of the three of them are over a hundred years old. They've withstood the test of time by changing when they needed to, adapting to customers' needs and behaviors. And yet, for two of the three, their sales are declining year over year:



Source: https://finance.yahoo.com/news/e-commerce-killing-traditional-retail-220106161.html

Amazon.com, on the other hand, is enjoying a little bit of prosperity…

Source: https://finance.yahoo.com/news/e-commerce-killing-traditional-retail-220106161.html

Some industry experts predict that brick-and-mortar retail is going to disappear as customers take more and more of their business online. In reality, it's not likely that brick-and-mortar will disappear. But it's sure going to change.

Amazon.com's market capitalization is at $400 billion, nearly twice that of its closest competitor, Wal-mart. More than half of shoppers making retail purchases are doing so online, and a good many of them on their smartphones. A 2016 survey indicated that 96% of Americans are shopping online and they allocate 36% of their shopping budget to ecommerce platforms.1 Ecommerce is not a trend that's going away.

Owners of brick-and-mortar stores are considering ecommerce to support their current business, to attract that elusive customer too busy to come into the store. Other retailers, like JC Penney, Lowe's and Home Depot, are adding buy-online-pickup-in-store (BOPIS) options to appeal to the shopper that has immediate needs and very little time. And of course, some businesses are just ecommerce platforms, completing transactions in cyberspace and shipping purchases from warehouses.

Regardless of the approach, an ecommerce platform has to be built with customer behaviors in mind. Just like a brick-and-mortar store, a website must provide an engaging and convenient shopping experience in order to be successful.

In this section, we're going to take a look at how websites employ some of those visual-merchandising type techniques to draw in customers.

CHARACTERISTICS OF RETAILING WEBSITES

When a shopper enters a brick-and-mortar store, she reacts to the environment, the layout of the store and the product display to make her buying decision. If she's online and lands on a website, she's looking for a list of functions and qualities that are not unlike those we've already talked about…they're built into the ecommerce platform to help the shopper understand the type of product she's going to get at this site, find what she's looking for (and a whole lot more), and see examples of how she can use the products you offer.

An appealing retail website isn't about looks, it's about shoppability. Here are some of the qualities that make an ecommerce site shoppable.

Ease of Use – This is the number one thing shoppers are looking for in an ecommerce site: they want it to be easy to use.

Hi-res photos – Shoppers are looking for multiple views of an item in hi-res, so they can see every detail. And we should mention that those hi-res pictures should not take a long time to load. Adobe reports that 39% of consumers will drop off if the photos take too long to load.1

Mobile-formatted site – An ecommerce site is more successful if it's friendly to the mobile device user. In fact, Google lowered the boom on sites that aren't mobile friendly in 2017, and they don't get the same SEO (search engine optimization) considerations that mobile friendly sites do. That means that your site won't come up near the top in a Google search.

Free shipping – Is it worth it? Customers love free shipping so much that they'll spend 30% more on average if free shipping is offered.

User reviews – When shoppers buy a product they haven't been able to touch and engage with, they want to hear how other users like it. Encouraging users to give reviews and featuring them prominently is important.

Secure payment options – Not only should there be secure payment options, there should be cutting edge payment options. PayPal is passé…perhaps ACH, WePay and Skrill are options you want to offer. Customers are always looking for ways to keep their money and identity safe.

Yes, it should be eye-catching and visually attractive, too. Take a look at these two websites:

Source: Northernism.com

Source: www.arngren.net

Which one makes you want to click and see more?

These features above are the “store layout” of the ecommerce platform. Without good ones, your customer won’t stay and shop.

1https://www.searchenginejournal.com/15-must-have-features-for-e-commerce-sites/181974/

ONLINE STORE DESIGN

Layout, traffic flow and environment are an important part of the online shopping experience, and a web retailer must leverage those features of a site in order to maximize conversions.

An appealing landing page

This is like the front of the store. A good page doesn't sell the shopper anything just yet – she's in the "transition zone" where she's still orienting herself. There's no 'add to cart' here…but maybe a 25% off sign to tease her to click more.

Apple's home page is a nice example. It has a clean look, a single product highlighted using some crisp, eye-catching colors. A tag line at the top is enough of a draw to make the shopper click more, and she does so by using a very simple top navigation menu. This is a good "entryway" for the shopper, a nice "transition zone" that orients the shopper to the upcoming experience and helps her understand what she's going to find with the next click.

Enticing product pages

Now that you've "entered the store" and gotten a feel for the environment, it's time to get a look at the store layout.

The top menu will show you what the store contains, and its layout will make the product easy to find…or not. Nordstrom does an excellent job of electronically "laying out" its ecommerce store for you. Here, we've clicked on products for women. This is anything from clothing to accessories, and you can see all those categories in one glance. A menu to the left points out new arrivals and trends like a sales person might.

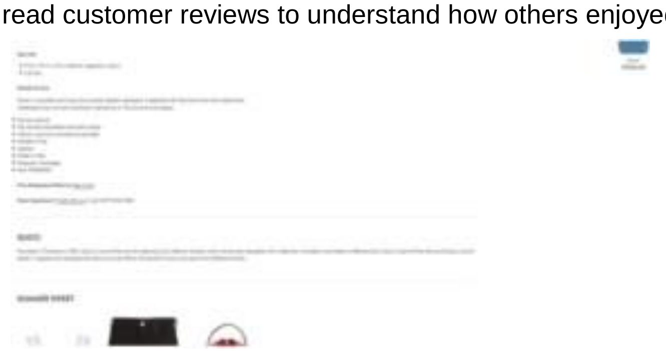
It's important to note here that the brick-and-mortar visual merchandising rule of "provide good choices but not too many" doesn't necessarily apply to ecommerce platforms. Shoppers go online to shop when they're looking for more choices, knowing that they can narrow them down to find just the right thing. Part of the online experience is trying to find the right pink tee shirt while narrowing the selection down from every pink tee shirt available in the world.

Now that we've seen all the aisles and gotten the store's "lay of the land," let's go down an aisle and interact with the product:

Here we've decided to shop backpacks. Right now, we have all 465 items in front of us, like a great big shelf of backpacks. But we can narrow that down using the side menu to the left – breaking it down by size, material, price, color and more. Pretty soon, we'll have a clear picture of just one or two backpacks to review.

Can we "touch" the backpack and learn more about it?

By clicking on the photo, we can take a much closer look at the backpack, getting several different views of it in the pictures to the left. Paging down a little further, you get size, weight and other details. Further down, we can read customer reviews to understand how others enjoyed and used the product.



These click-through features provide us with that in-aisle experience, where we look at, study and handle the product before we make the purchase. Here on the ecommerce platform we have to do that virtually, but the experience is mimicked well, making the shopper's experience a memorable one.

What about other sales opportunities that go along with this Gucci bag? Can we bundle it with other items to show how it goes with the whole outfit? Nordstrom has thought of that, too, featuring this set of photos halfway down the page:

What happens when you mouse over one of the items that interests you? This:

Bundled displays, this time electronically, are aiming for increased sales conversions.

When you're purchasing an item on Amazon, you might notice a list of items on display when you add it to your cart. Those items are titled "Customers also bought." This is the website's way of attempting a complementary grouping. Imagine if you bought a dozen eggs on Amazon, and then you saw a picture of bacon and, written above it, "Customers also bought…" Sometimes the Amazon suggestions don't make as much sense as eggs and bacon, but it's working on an algorithm written to share the shopping habits of people just like you.

Visual display techniques can definitely be leveraged when crafting a retail website, and they lead to higher sales conversions…which mean more profits for the retailer.

USER EXPERIENCE

The shopping experience. Brick-and-mortar retail stores are reinventing themselves to provide better, more engaging experiences for their shoppers, knowing that the physical shopping experience is what differentiates them from the crushing trends of online shopping. At the same time, ecommerce platforms are looking to up the ante on the shopping experiences they provide. Right now, most ecommerce is a bunch of pictures and a check out process that requires a credit card and a shipping address. How does it get more exciting? How does ecommerce platform A steal share from ecommerce platform B by being a little different?

User experience, or UX, is defined as the overall experience of a person using a product such as a website or computer application, especially in terms of how easy or pleasing it is to use. Ecommerce platforms are looking at new ways to enhance UX to attract new customers and entice them to spend more.

Users have certain expectations when they visit a website, and those expectations should be served if a site is to be successful. Users expect that a site will:

Load quickly

Be easy to navigate

Have good photos

Have a good search feature

Have concise but excellent product descriptions

Offer live chat or some form of instant customer service

Have a quick and secure checkout option

Those website UX features need to be in place if a retail ecommerce platform is going to be successful.

Of course, UX will need to reach beyond the basics in order to keep shoppers engaged with their products. Adding the clever, easy-to-understand visual display features like what we saw on the Nordstrom site is a great next step. Then, here are some new techniques being tested to enhance UX:

Recognizing that shopping is becoming an omnichannel experience – “Omnichannel” refers to a multichannel approach to sales that seeks to provide the customer with a seamless shopping experience whether the customer is shopping online from a desktop or mobile device, by telephone or in a brick- and-mortar store. As shoppers look to purchase online and pick up in store, or shop in store and order products online while they’re there, retailers are responding by adapting to the non-linear shopping trend. Today, if a shopper walks up to the makeup counter at Macy’s and they don’t have the product she wants, they offer to place and order and ship it to her home for free. Lowe’s offers a buy-online-pick-up-in-store option that allows customers to shorten their shopping trip by purchasing online, and yet they’re still there for add-on sales in the point of sale area when they pick up their merchandise.

Voice-activated shopping experiences – Pet specialty chains like PetSmart and Petco have something to worry about, because dog food is the number one item ordered on Amazon’s Alexa. Voice-activated shopping experiences are taking off quickly, and grocery store pantry items and pet specialty items are among the first to take a hit as people look to this easy solution.

Subscription shopping – Dog owners love Barkbox.com, where a package of fabulous doggie treats arrives at the door monthly to dazzle the canine member of the household. Similarly, the lady of the house looks forward to her monthly delivery of StitchFix, an online retailer that offers personal stylists who build outfits for their customers based on information in an online profile. Ecommerce platforms make it easy to offer monthly, even weekly, interactions with customers that surprise and delight. Ask any Hello Fresh subscriber how easy their family dinners have become if you don’t believe me.

Retailers will continue to innovate around UX to achieve higher levels of engagement and conversion. Expect to see new and fascinating trends popping up everywhere.

PROS AND CONS OF AN ONLINE STORE

Online, brick-and-mortar, or both? There are advantages and disadvantages to both:

Brick-and-mortar only

The advantages of a brick-and-mortar store are pretty clear. The shopper can have an entirely immersive shopping experience, where you control everything from the product he sees to the music he hears while he views it. The visual display opportunities only end with your imagination, and add on sales are easy while you have a captive audience.

The disadvantages of brick-and-mortar only are also pretty clear. Shoppers are short on time and stingy about where they spend it. If 51% of all shopping is done online, your brick-and-mortar store is capturing its tiny piece of the other 49%. Online shopping has grown every year. That means that brick-and-mortar's piece could get smaller every year, until it evens out somewhere in our future.

Online only

The advantages of having an online store only start with capturing that 51% of all shopping. Trends favor ecommerce right now and that's not likely to change anytime soon. Have a site that's easy to find, easy to use, and you have conversions.

You also don't need a large sales staff to run an online site. There are no "store hours" requiring two or three employees. And there's no need for a building, carpeting, lighting, fixtures…overhead costs are pretty low, which means your profit is bigger and your start-up costs are lower.

The disadvantage of online shopping is attention span. Your shopper has little or none, unfortunately. While a customer can linger in a brick-and-mortar store for hours, allowing a retailer to leverage visual display to increase conversion, an online shopper can be on your site for a minute or less. That's not much time to increase the ticket.

If you offer perks like free shipping, which online shoppers now look for and expect, you can also damage your margin. Large products, like bags of dog food or furniture, can be expensive to ship and if you're assuming that cost, you're losing money. It's because of this that, in many areas of retail, online customers are just not as profitable as brick-and-mortar customers.

Online and brick-and-mortar together

The advantage of having both a brick-and-mortar retail location and an online store is the ability to appeal to your customer through both channels. As was mentioned earlier, shoppers are increasingly engaged in omnichannel options. They may shop online or in the store, and the more seamless you can make the shopper's experience as they bounce between the channels, the more successful your retail business will be.

Operating online and in brick-and-mortar also allow you to appeal to a larger variety of shoppers by offering them different ways to shop your merchandise. Some customers will resist purchasing items online, preferring a personal experience. Other customers will avoid brick-and-mortar and defer online most of the time. You can capture both these audiences with both offerings.

Your website can also act as your window display. If your window display attracts customers into your store from outside on the street, your website can attract shoppers into your store while they're sitting on their couches at home.

The disadvantage of both is that brick-and-mortar is an area of retail that's adjusting to online trends, and retailers are finding themselves in a position where they have to shrink their store footprint to continue to be profitable. Online allows you to grab some of that business that's being sucked out of your brick-and-mortar location, but at the same time it can be distracting. Also, your online business may attract loyal brick-and-mortar customers away, converting profitable shoppers into less profitable shoppers.

PUTTING IT TOGETHER: RETAIL IMAGE: LAYOUT AND VISUAL MERCHANDISING

Whether a retailer is putting the rules of visual merchandising to work in a brick-and-mortar store, or on an online retail platform, he's working to maximize sales. Visual merchandising is just that – a tool to encourage a shopper to buy more.

Luckily for us, shoppers are predictable. The way they walk through the store, what they like and don't like when they enter one, and how they want to handle the merchandise are all well studied and understood. It's only up to the retailer to get creative about displaying her merchandise right.

As we said in the beginning, a customer makes 80% of his purchasing decisions in the store. Visual merchandising is the retailer's tool to influence the customer and make more sales. That means more margin and more profit.

That's the best possible reason for visual merchandising.

MODULE 14: INTEGRATED MARKETING COMMUNICATIONS AND PROMOTIONS

WHY IT MATTERS: INTEGRATED MARKETING COMMUNICATIONS AND PROMOTIONS

Let's assume you've done all the work to establish your retail business. You've conducted rigorous strategic planning, evaluating opportunities…

You've evaluated channels of distribution, selecting the one(s) that fit with your capabilities and growth prospects…

You've selected a market, targeting a specific customer segment…

You've built channel relationships, sourcing products and ensuring a well-merchandised store…

You've hired capable staff, setting performance objectives for them that support your strategic plan…

You turn on the lights, unlock the doors and…

You wait…

You wait for consumers to come to shop your well-merchandised store…

And you wait? Where are they? Are they coming? What did we miss? Not strategy or channel or market or segment or assortment. How well did we market ourselves?

Did we leverage advertising and promotion to publicize who we are and what benefits we'll provide for shoppers? Did we engage in traditional and new media to support awareness? Did we share compelling messages with clear calls to action, which would prompt a shopper response? That is, did we invite the shopper to the store, using multiple media, and give them a reason to come?

Too often it's tempting to think that the product or service "speaks for itself." That it will "sell itself." Perhaps we think that marketing, especially advertising and promotion, is boastful or can be misleading. Maybe we worry that it "forces" people to buy things they don't want or need. Or, we believe that we've done such an effective job with strategic planning, targeting the perfect segment and building a great plan to support it, that we're destined to be successful.

Yet, you know from *Module 3: Multi-Channel Retailing* that Logistics, Facilitation and Transaction are the channels activities that bridge the producer and the consumer. Further, facilitation refers to channel coordination, including marketing & promotion. Thus, marketing & promotion are fundamental for supporting the exchange of goods, transferring products & services to the consumer and transferring payments back to the producer. Without them, the onus is on the consumer to search for what they believe they need—for products and services they believe will resolve issues for them.

Further, in *Module 4: Identifying and Understanding Customer Behavior*, you read about the buying process. From the marketer's perspective, we discussed AIDA:

- Attention
- Interest
- Desire
- Action

In short, advertisers grab a consumer's *attention*, making them aware of the product or service that can satisfy that individual's identifiable need. Then, through the description of features & benefits, the consumer's *interest* is developed to the point of *desire*. At this point, the consumer becomes the actor and takes *action* to purchase the item.

Because we described the AIDA model as enduring but overly simplistic, you also read about the buying process from a consumer's perspective, represented by six (6) stages:

1. Recognition of an Issue or Need
2. Information Gathering
3. Evaluation of Options or Alternatives
4. Selection
5. Purchase
6. After-purchase Evaluation

As you may remember, the consumer begins to *gather information,* seeking out options that could satisfy their want, after *they recognize an issue or need*.

In the AIDA model, marketing & promotion are implicit for getting *attention* and developing *interest*. But, can you imagine the buying process from a shopper's perspective WITHOUT marketing and advertising activity? How could a shopper easily *gather information* or *evaluate options*? Here, too, marketing & promotion are implicitly important for the buying process.

In short, marketing & promotion help facilitate exchange by providing information and context to consumers so that they are better able to understand how specific good and services can meet their needs. It's for this reason that we want to spend time discussing Integrated Marketing Communication. Integrated Marketing Communication optimizes messaging by harnessing the benefits of each channel to build a clearer and broader impact than individual or singular campaigns.

INTRODUCTION TO INTEGRATED MARKETING COMMUNICATIONS AND PROMOTIONS

As we begin, we need to emphasize the relevance of *integrated* in our discussion of Marketing Communication. As you know, the emergence of digital technology, social media and mobile devices has led to significant changes in how consumers shop for and engage with brands—the emergence of an omni-channel, i.e. the varied interactions in the shopping process that consumers have pre-, during and post-purchase. The resulting proliferation of channels and fragmentation of target audiences means that firms must work hard to be present and relevant wherever and whenever consumers engage. Further, it means that outbound advertising must be integrated together to ensure that it is consistent, complementary and customized for the appropriate channel to have maximum impact on the target audience.

CUSTOMER COMMUNICATION

Earlier, we revisited *Module 4: Identifying and Understanding Customer Behavior* to review the buying process from both the firm and the shopper's perspective. Regardless of which orientation we chose, we saw that marketing & promotion are implicitly important for the buying process because they grab *attention*, help develop *interest* and provide resources from which consumers *gather information* and ultimately *evaluate options*. To encourage consumers to make decisions/ purchases, some customer communication might include a specific *call to action* or *offer* that has a specific period of availability. In thinking about marketing and promotion in this way, we begin to see what's required for effective Customer Communication:

- Grab attention
- Provide information, which will:
    - o Develop interest
    - o Help consumers understand benefits
    - o Evaluate options
- Offer a reason to act now.

Consumers are driven by their individual wants and needs. No marketer, regardless of how insightful they are, can create an ad so compelling that it can force people to buy something they do not need. Marketers cannot create demand, where a consumer want doesn't exist. Thus, the role of advertising is to get the consumer's attention to make them aware of products/ services. THEN, they explain how the product or service can satisfy an unmet need. AND, sometimes, they provide a reason to take action now.

To evaluate advertising with this framework, consider a company like the Coca-Cola Company. They certainly advertise, but why? And, why would it advertise its flagship soft drink, Coke? Is it really about grabbing attention and providing information to develop interest among consumers or to help them make a selection?

For its part, the Coca-Cola Company is the largest beverage company in the world. And, Coca-Cola is a truly global brand. *Business Insider* wrote that "The red and white Coca-Cola logo is recognized by 94% of the world's population." Further, it is routinely described as being among the most powerful, most valued and most recognized brands in the world. It boasts incredibly high Brand Recognition and Affinity. Coke, the product, is available in more than 200 countries.

So, why does the Coca-Cola Company advertise? And, why does it advertise Coke?

Is it to make consumers aware of Coke? Probably not, given that people consumer 1.9B servings of Coca-Cola daily. (That's a serving for ~25% of the global population every day!)

Is it to educate consumers about what a Coke is? Probably not, given that the recipe is a closely guarded secret.

But, think about the commercials themselves. What do the images convey? What do the words say? How does the music make you feel? Don't all these pieces work together to grab your attention?

What about the specific messages within the commercial? Are they more about reason or emotion? Do they sell the benefits of the beverage itself, i.e. the nutritional contribution or taste? Or, do they promote other benefits like connection, nostalgia or belonging? Isn't it the latter? And, in messaging this, isn't the Coca-Cola Company trying to make an emotional connection to develop consumer interest?

So, does the Coca-Cola Company sell a carbonated soft drink in their ads, or do they promote the special moments that Coca-Cola is shared and the emotions that underpin those moments? With their slogan "Open Happiness," I would argue it's the latter. So, isn't The Coca-Cola Company providing more information, outside of the product itself, with which the consumer can evaluate the product?

Thus, we might answer, "Why does the Coca-Cola Company advertise?" with "to get the consumer's attention to explain how enjoying a Coke can provide a moment of happiness." And, this leads us back to the original topic of this section, the elements required for effective Customer Communication:

- Grab attention
- Provide information, which will:
    - o Develop interest
    - o Help consumers understand benefits
    - o Evaluate options
- Offer a reason to act now.

“Wait a minute,” you’re thinking. “There isn’t a call to action!”

You’re right. But, remember that Integrated Marketing Communication optimizes messaging by harnessing the benefits of *each* channel to build clearer and broader impact. So, wouldn’t we expect The Coca-Cola Company to message in other channels, especially in-store? Would it surprise you to find displays?… What about special offers and sales?… Might we also see special packaging? In this way, The Coca-Cola Company is effectively using multiple channels for Integrated Marketing Communication, sharing customer messages that grab attention, develop interest, share information and (sometimes) make specific calls to action.

INTEGRATED MARKETING COMMUNICATIONS

Integrated marketing communications (IMC) optimizes the communication of a firm’s message by harnessing and leveraging the benefits of each channel of communication, e.g. on-air, on-line, in-home and in-store, and type, i.e. owned, paid and earned. When combined, these channels broaden the reach and deepen the impact of the messages.

Media proliferation, audience fragmentation, globalization of markets, the advent of new communications technologies, the widespread use of databases meant that the old methods, and practices used in mass marketing were no longer relevant. In particular, the rise of digital and interactive media meant that marketers were relying less on advertising as the dominant form of marketing communications.

Integrated marketing communications is a holistic planning process that focuses on integrating messages across communications disciplines, creative executions, media, timing and stakeholders. An integrated approach has emerged as the dominant approach used by companies to plan and execute their marketing communication programs. [55] (https://en.wikipedia.org/wiki/Marketing_communications#Integrated_marketing_communications)

So, what does this really mean?

Firms using Integrated Marketing Communications (IMC) consider the various channels through which consumers can be reached and through which they [consumers] choose to gather information. This shows an appreciation for consumers’ active and passive media consumption, e.g.:

- Active:
    - o Visiting a brand’s website
    - o Following a brand on social networks
- Passive
    - o Hearing advertisements on the radio
    - o Seeing commercials on television.

As a result, it also recognizes that not all media is paid. Instead, savvy marketers can broaden their audience by complementing their paid media, e.g. paid search, television, print ads, etc. with their owned channels, e.g. website and social media assets, and earned media, e.g. organic search, press releases and independent ratings & reviews.

Let’s revisit the scenario you read about in *Module 3: Multi-Channel Retailing*, regarding the Pillsbury™ Bake-off, as this provides a great example of IMC in practice. You read:

On a social network, a consumer sees a post from Pillsbury™, announcing the winners of the annual Pillsbury™ Bake-off. Interested, they search for past winning recipes and find themselves at Pillsbury.com. Inspired, they find a recipe they want to try and plan a trip to Schnuck’s, their local supermarket, where Pillsbury items are available on-shelf.

But, let’s back-up even further, considering the event and all related communication from the viewpoint of the marketers at Pillsbury™. That is, let’s begin with a simple question, “Why does Pillsbury™ sponsor the Pillsbury™

Bake-off annually?”

The answer is that Pillsbury™ sponsors the event to create a platform around which to promote their brand and to sell their products. And, IMC helps them broaden the reach of their brand messaging.

You can probably imagine the marketing team at Pillsbury™ creating a robust marketing plan around the event, perhaps creating a flowchart to show all the channels of communication they'll use, the specific messages and the timing. For example, it might include:

- Press Releases to announce the date and site of the Pillsbury™ Bake-off
- Posts on Pillsbury's™ social networks to share the same
- Links on Pillsbury.com to register to participate or access past winning recipes

Then, as the date nears:

- FSIs (Free Standing Inserts), i.e. ads and coupons, placed in newspapers to promote the brand and products
- Efforts by the Sales Team to secure displays, in-store signage and promoted items in store circulars

And, after the event:

- Press Releases to announce the winner of the Pillsbury™ Bake-off
- Posts on Pillsbury's™ social networks to share the same
- Links on Pillsbury.com to download the featured and winning recipes
- On-line ads to promote the winning recipe and the products used in it
- FSIs (Free Standing Inserts), i.e. ads and coupons, placed in newspapers to promote the brand and the products used in the winning recipe
- Efforts by the Sales Team to secure displays, in-store signage and promoted items in store circulars

Consider the activity again, appreciating that it spans on-air, on-line, in-store and blends paid, owned and earned:

- Press Releases to announce the date and site of the Pillsbury™ Bake-off (On-air, In-home and/ or On-line; Earned)
- Posts on Pillsbury's™ social networks to share the same (On-line; Owned)
- Links on Pillsbury.com to register to participate or access past winning recipes (On-line; Owned)

Then, as the date nears:

- FSIs (Free Standing Inserts), i.e. ads and coupons, placed in newspapers to promote the brand and products (In-home; Paid)
- Efforts by the Sales Team to secure displays, in-store signage and promoted items in store circulars (In-store; Paid & Earned)

And, after the event:

- Press Releases to announce the winner of the Pillsbury™ Bake-off (On-air, In-home and/ or On-line; Earned)
- Posts on Pillsbury's™ social networks to share the same (On-line; Owned)
- Links on Pillsbury.com to download the featured and winning recipes (On-line; Owned)
- On-line ads to promote the winning recipe and the products used in it (On-line; Paid)
- TV ads to promote the winning recipe and the products used in it (On-air; Paid)
- FSIs (Free Standing Inserts), i.e. ads and coupons, placed in newspapers to promote the brand and the products used in the winning recipe (In-home; Paid)

- Efforts by the Sales Team to secure displays, in-store signage and promoted items in store circulars (In-store; Paid & Earned)

In this way, the Pillsbury™ Bake-off isn't a singular event for a relatively small number of participants. Instead, it's a platform the company and brand uses to promote their brand and products. Further, because of the unique nature of the event, Pillsbury™ is able to leverage IMC to broaden the reach and deepen the impact of its marketing messages. Again:

IMC unifies and coordinates the organizations marketing communications to promote a consistent brand message.[57] Coordinating the brands communications makes the brand seem more trustworthy and sound as it is seen as a ‘whole' rather than a mixture of different messages being sent out.[58] The IMC perspective looks at the ‘big picture' in marketing, advertising and promotions.[11]

MEDIA ELEMENTS

As you saw in the example of the Pillsbury™ Bake-off, the firm uses a blend of communication channels, i.e. on-air, on-line, in-home and in-store. Often, these different channels are distinguished as Traditional and New Media. Traditional Media is typically used to describe mass media tools like television, radio, billboards and print (newspaper or magazine). In contrast, New Media typically refers to newer channels that allow for more nuanced targeting, e.g. search, e-mail marketing, social media, etc.

Traditional (or "Old Media) are broadcast based, meaning that the messages are sent in one-direction only. Further, they are directed toward a mass audience, without the level of focus or segmentation afforded by new media in the information age. For its part, New Media is interactive and comparatively decentralized. That is, channels like social media allow consumers to engage in two-way communication with firms and their brands. But, even owned .com sites and outbound e-mail campaigns can be optimized so that they have higher resonance with consumers, making them more targeted, relevant and engaging.

For your reference, Traditional Media is considered:

- Television
- Radio
- Print

New Media is considered:

- Internet Search
- Social Media
- E-mail
- Direct Mail
- Telemarketing
- Direct-response, a message transmitted through traditional media communications that requires the reader, viewer, listener or customer to respond directly to the organization[43] E.g. The Home Shopping Network
- In-product Communication, i.e. delivery of marketing content directly to a user's internet-connected device or software application

Again, note that New Media provides for hyper-targeting and multi-directional communication.

BUDGET CALCULATIONS

Before going in-depth on ways to account for and measure Marketing expenses, it should be noted that business owners often look for guidelines on how much to invest for a given campaign. To be true, there is no perfect formula for what a business should spend on marketing and promotion because this is highly subjective and dependent upon a host of variables, not the least of which are the specific strategy, existing consumer awareness and ROI requirements. That said, some outlets do publish guidelines by industry. Generally, these reflect and recommend a percentage spend of revenue be invested in marketing and promotional activities.

However, these can vary from mid single digit to low double-digit investment, depending upon industry, organizational strategy and specific financial resources. Another approach for retail organizations, if appropriate, is to fund marketing as a percent of mark-up minus monthly rent. To simply this, imagine a business that sells $2,000,000 in goods annually.

- The product they sell costs $2.00 for them, but sells for $4.00.
- They sell 500,000 units/ year ($2,000,000/ $4.000).
- Their mark-up is $2.00 ($4.00 – $2.00).
- Recommended marketing & promotion investment might be 8- 12%, dependent upon needs.
- Thus, they would consider investing $80,000 to $120,000 for marketing & promotion BEFORE adjusting for their rent expense (500,000 units x $2.00 mark-up = $1,000,000; $1,000,000 x 8% = $80,000; $1,000,000 x 12% = $120,000).
- IF their monthly rent is $4,000, then their planned investment would be $32,000 on the low-side to $72,000 on the high-side ($4,000 rent x 12 months = $48,000; $80,000 – $48,000 = $32,000 low-side; $120,000 – $48,000 = $72,000 high-side investment.

Just know that these are not “hard and fast” rules for marketing investment. Instead, they inform your decisions, given your own organizational strategies, market opportunities and financial resources.

That said, it is important to understand how to describe promotional objectives and track performance, so that your firm can optimize their plan as appropriate. And, there is a specific language that speaks to advertising goals and measurement. For traditional media, important terms are:

- Rating- the percentage of a market that will *likely* be exposed to a single, specific ad
- Reach- the *likely* number of people in the market who will be exposed to the single, specific ad
- Frequency- the number of times the ad will be presented to the target market
- Impressions- the total number of times an individual is exposed to the single, specific ad. A consumer who sees the same ad four (4) times has had (four 4) impressions.
- Response Rate- refers to the number of people who responded to a specific marketing offer, usually expressed as a percentage (total responses/ total distribution). It is common in direct marketing like direct mail and e-mail marketing ·
- Redemption Rate- refers to the number of people who acted on a specific marketing offer, usually expressed as a percentage (total purchases/ total distribution). It is common in direct marketing and couponing
- Gross Rating Point (GRP)- measures the breadth of an advertising campaign, multiplying the number of times an ad airs (spots) by the Rating
- Cost per Point (CPP)- measures the cost efficiency of the campaign, allowing one to compare between individual ads or over time. CPP is calculated by dividing the Cost of Media by GRPs

You might notice that measures in traditional media focus upon Cost and Scale. That is, what did the media cost to produce and run, relative to the total number of people who saw it, regardless of whether they are part of the specific customer target. New media, because it is more targeted and trackable, provides for more specific measures and resulting activity.

In *Module 3: Multi-Channel Retailing*, you read about some common terms and measures used in new media. As a reminder, they can be unique to websites, social media and apps. Further, they speak to traffic, engagement, usage and efficiency. For web analytics, important terms are:

- Traffic
    - Hits- a request for a file from a web server
    - Visits- a user’s interaction with a website, measured by hits or page views
    - Unique Visits
    - Return Visits

    - Impressions- the number of times an ad loads on a viewer's screen
- Engagement
    - Page Views
    - Click-through Rate (CTR)- the number of visitors who click on a given link / the total number of visitors who were served the link or page or advertisement
    - Duration or Time Spent on-site
    - Events- clicks, page views, downloads, video plays, etc.
- Efficiency
    - CPM- "Cost per 1,000"; frequently used in display advertising, it's the cost for 1,000 ad impressions
    - Return on Ad Spend- the number of unique people who saw an ad / the total cost of running the campaign
    - Conversion Rate- the number of visitors who complete the desired action / the total number of visitors. For example, in Lead Acquisition efforts, a marketer might measure Conversion as = Lead Cards Completed / Total Site Visitors
    - Close Rate- the number of Sales / the total number of Leads

For social networks, marketers track Followers or Friends to measure reach. They measure engagement in the context of Likes, Shares, Mentions or Retweets.

Of course, the ultimate goal of all marketing & promotion is to sell the firm's products and services. And, while measurement in both traditional and new media attempt to understand how well ads and campaigns drive action, it is very difficult (potentially impossible) to establish causality. That is, it is generally easy to see how advertising and promotion stimulate activity within the market—marketers can measure Consumer Awareness, Brand Affinity and Intent to Buy. They can also track how sales of their own products & services trend before, during and after the promotional period.

However, due to the rise of the omni-channel, consumers search and shop across channels very easily, blurring them. This means that they're exposed to a broad spectrum of marketers' advertising efforts and messages. Thus, it's impossible to understand the impact of a single ad. Think of it this way:

- How many of the firm's marketing messages did the consumer see before making their purchase?
- So, how much "credit" does each, single ad get for the sale?
- Was each ad beneficial, or did some get "tuned out" because the consumer had already decided that the product was right for them?
- Did the Facebook ad have more impact than the television spot? How did banner ads on-line fair relative to influencer posts on Instagram? Were the newspaper ads more meaningful than the in-store displays?
- What would have happened if we cut radio, but increased direct mail activity?

These questions are unanswerable. The necessity of IMC is that it considers the campaign and its channels in their entirety, knowing that attribution of sales to single marketing activity is a near impossibility. Thus, marketers should be more interested in the total impact to sales activity.

To be effective, marketers need to understand the trend of their sales, BEFORE marketing activity. This can establish baseline sales against which to measure and assess changes, once the marketing activity is in- place—incremental sales. More specifically, marketers measure the change to sales during and after the marketing activity (Total Sales – Baseline Sales = Incremental Sales). This isn't perfect, but incremental sales should reflect what the impact of the marketing activity is upon customer purchases.

With this insight (Base, Incremental and Total Sales) and the cost basis of the campaign, marketers can derive a number of useful measures:

- Cost per Sale = (Total Marketing Spend / Total Units Sold) E.g. $400,000 / 1,200,000 = $.33 per Sale

- Cost per Incremental Sale = Total Marketing Spend / (Total Units Sold – Baseline Sales) E.g. $400,000 / (1,200,000 Total Units – 6,000,000 Baseline) = $.67. (That the Cost per Incremental Sale is greater than the Cost per Sale should make sense because customers who were interested in buying without the marketing activity also got the benefit of the marketing activity. In this sense, the marketing activity was "wasted" on them.)
- Return on Marketing Investment (ROMI) = [(Incremental Revenue x Contribution Margin) – Marketing Spend] / Marketing Spend E.g. Assume Revenue of $4.00 per unit and a contribution margin of 25%; [($2,400,000 x 25%) – $400,000] / $400,000 = $200,000 / $400,000 = 50%. This means that every dollar spent in marketing and promotion returns an extra $.50 to the firm.

Measures like the above can help firms assess the effectiveness of their promotional effectiveness during and after the marketing activity.

INTRODUCTION TO COMMUNICATION PROGRAMS

Marketing & promotion help facilitate exchange by providing information and context to consumers to help them understand how specific good and services can meet their needs. Integrated Marketing Communication plays an essential role in this process, made even more important with the rise of the omni-channel. It (IMC) harnesses the benefits of each channel to build a clearer and broader impact than individual or singular campaigns.

BRAND EQUITY

Brand Equity refers to the intrinsic value a brand has, given consumers' awareness of it and affinity for it. It is the product of Brand Identity, i.e. how a brand represents itself and its value publicly, and Brand Image, what attributes and values consumers project on the brand. It is commonly believed that "the owner of a well-known brand name can generate more revenue (compared to the owner of a lesser or unknown brand) simply from brand recognition." That is, "consumers believe that a product with a well-known name is better than products with less well-known names.[1][2][3][4] ."

Brand equity has been studied from two different perspectives: cognitive psychology and information economics. According to cognitive psychology, brand equity lies in consumer's awareness of brand features and associations, which drive attribute perceptions. According to information economics, a strong brand name works as a credible signal of product quality for imperfectly informed buyers and generates price premiums as a form of return to branding investments.[5]

That is, the better a consumer knows and understands a brand, perceiving it as favorable, the more likely that they'll ascribe those same attributes to the brand's products. For example, the marketers responsible for the Cheerios™ brand might describe Cheerios™ brand identity as wholesome, nutritious and inclusive, perfect as a "first food" for toddlers through adulthood. And, if you, as a consumer, understand and believe this positioning for the Cheerios™ brand, you are more likely to believe that all flavors and versions of Cheerios™ cereals are wholesome, nutritious and inclusive. Further, you might be more willing to purchase a new item from the Cheerios™ brand ahead of a rival product from Kellogg's® or Post®, believing that the Cheerios™ brand implies high(er) quality.

Brand Equity is important for marketers because the relative strength of a brand reflected in "Consumers' knowledge about a brand [also] governs how manufacturers and advertisers market the brand.[7][8] " For example, a brand that is not well known and/ or not highly regarded requires far more investment and support to generate awareness and affinity. That's because "brand equity is created through strategic investments in communication channels and market education." When successful, these investments "appreciate through economic growth in profit margins, market share, prestige value and critical associations."

That said, Brand Equity is difficult to quantify, and there is no consensus on how to measure it. One issue is:

[the potential] disconnect between quantitative and qualitative equity values. Quantitative brand equity includes numerical values such as profit margins and market share, but fails to capture qualitative elements such as prestige and associations of interest. Overall, most marketing practitioners take a more qualitative approach to brand equity because of this challenge.

Further, recognition and affinity doesn't imply intent to buy. Luxury brands clearly illustrate this phenomenon. For example, a consumer may be aware of the Porsche brand and feel very strongly about it. Yet, this reflection of Brand Equity does not necessarily mean that the consumer is actively shopping for or able to purchase a Porsche model. Nevertheless, Brand Equity is an important consideration for marketers as they determine how to market their brand, understanding that Brand Equity is created and sustained through strategic investments in IMC.

MARKETING COMMUNICATION PROGRAM (SMART)

As you consider your advertising and promotion plan, it's important to keep three (3) things in-mind:

1. How can we maximize coverage, given budgets?
2. What channels will be the most effective?
3. How will we assess campaign performance?

The first should be self-evident. While there may be temptation to match the proliferation of channels with an effort to be present in each, there is a finite limit to what organizations can and should invest in their marketing activity, given their strategy, resources and the competitive environment. Considering the costs of developing content and securing access in each channel, it would be incredibly expensive to run campaigns in all channels.

Further, being present in every channel may lead to diminishing returns. It's rarely possible and seldom advisable to spread messages across all channels, knowing that the increased reach will likely mean sacrificing frequency and the need for multiple impressions. Consider the question we posed earlier, "Was each ad beneficial, or did some get 'tuned out' because the consumer had already decided that the product was right for them?"

Think about it this way. If a marketer messages on its website, Facebook page, Twitter feed, then pays for banner ads, billboards, print ads in magazines and television commercials, the message has incredible reach and assumed frequency, likely generating high impressions. What would the further benefit be of incorporating radio into the campaign? What if we messaged on Instagram or added paid search? Would this be duplicative to the television activity? Or, would it be complementary?

One way to answer the question is to think of the second question. That is, examine the Customer Journey to understand how consumers shop the product or service and how the channels function to deliver information. In what channels are the target consumers present and engaged? What are their explicit needs at given contact points and in each channel. How does the channel meet a shopper's needs for information or support? Instead of spreading marketing investments across all channels, like spreading peanut butter across a slice of bread, most marketers will "over-invest" in specific channels, selecting the ones that provide the greatest benefit. This could mean the widest audience, the highest level of interaction, the best fit with the specific target market or another criterion.

For example, if you're responsible for a well-known brand that generates organic, i.e. natural, web traffic to your own site, it may mean paid search is less important for you. But, this also means that SEO is critically important, so that your site ranks well and shoppers can find what they're looking for.

Or, if you find that a high percentage of your followers on social media are prospects, it might be worthwhile to invest in creative and messaging there. (By some estimates, existing customers outnumber prospects on social media by 4:1. However, that also means that 20% of followers are prospective customers—that shouldn't be overlooked.)

If your product/ service is complex or highly visual, you might want to consider how best to share details with your target. If complex, would a magazine ad work well? What about blogs or video blogs where influencers describe the product and benefits?

If it's a visual item, would you ever consider radio? Or, would print work best?

And, of course, we need to determine how best to measure the effectiveness of the campaign, i.e. the messaging, channels and impact on consumers. Like allocating a budget, the determination of a campaign's performance is specific to the firm's strategy, resources and the competitive environment. For example, if an organization is launching a new product or service, their priority might be upon building initial consumer awareness and trial. We see this commonly in the grocery industry, when new and seasonal items are featured in advertising and in-store merchandising, e.g. Oui™ French style yogurt by Yoplait® and Hershey's® Gold caramel crème candy bar.

Now, compare this to our evaluation of The Coca-Cola Company. In them we saw a dominant, global brand advertising products with widespread distribution and consumption. Clearly, they aren't trying to develop awareness and trial. More likely, in this case, they're advertising to reinforce the emotional benefits of drinking the beverage to support brand affinity and to keep it "top of mind." These goals are much different than what's in play for a firm supporting new items or services.

Alternatively, advertising can be a useful tool, if the brand equity has been impaired– if a firm has suffered a public relations issue. In this case, the intent of the marketing activity might be to improve customer perception. After their well-publicized account fraud scandal brought about by the creation of millions of fraudulent savings and checking accounts without customer consent, Wells Fargo has initiated an advertising campaign to "Earn back your trust." Clearly, these messages are aimed at restoring confidence in the brand and organization, following the scandal and resulting $185 million in fines & penalties.

Regardless of the motivation for or objectives of the advertising campaign, marketers should be guided by the mnemonic acronym SMART. Independent of the specific goals, i.e. reach, impressions, brand awareness or other measures, SMART gives criteria to guide in the setting of objectives. The letters S and M usually mean specific and measurable. Possibly the most common version has the remaining letters referring to achievable, relevant and time-bound.

SMART was introduced in a paper by T. Doran called *There's a S.M.A.R.T. way to write management's goals and objectives*. [1][3] Subsequent authors have adjusted their meaning slightly to:

- Specific, i.e. targeting a specific area for improvement.
- Measurable, i.e. quantifiable or at least suggest an indicator of progress.
- Achievable, i.e. realistically be achievable, given available resources.
- Relevant, i.e. applicable to the current objective and supportive of the broader strategy
- Time-bound, i.e. specific to a given period when the result(s) can/ should be achieved

It's important to apply these criteria to assessment of the campaign. Without them and clear understanding of the scope, it becomes too difficult to understand the impact of the marketing activity. For example, without a specific objective, is customer awareness more important or sales (as an indicator of trial)? If there aren't measures or the objectives aren't actionable, can we accurately assess correlation or causation? By the same token, if the objectives aren't realistic, do we get an incorrect impression of the marketing activity's impact for good or for bad? And, if not time-bound, will we know how quickly to make adjustments to our plan to improve return?

Thus, it's important to keep three things in-mind, when building an advertising and promotion plan:

1. How can we maximize coverage, given budgets?
2. What channels will be the most effective?
3. How will we assess campaign performance?

Avoid the temptation to match the proliferation of channels with an effort to be present in each, given the costs of development and the risk of diminishing returns. Examine the Customer Journey to understand how consumers shop the product or service and how the channels function to deliver information. Apply the SMART criteria to assess the campaign objectives to manage scope and to understand impact.

INTRODUCTION TO THE INTEGRATED MARKETING COMMUNICATIONS MIX

As we begin the next section, it's important to keep in mind that the limits of marketing and advertising budgets combined with the complexity of managing campaigns and content will constrain channel selection. Further, we'll also want to be mindful that while consumers may be present in all communication channels, specific ones will be better fits, given firm strategy and consumer behavior along the Customer Journey. That said, we should be energized to know that there is a multiplier effect by leveraging several channels, which amplifies marketing messages. Integrated Marketing Communication optimizes messaging by harnessing the benefits of each channel to build a clearer and broader impact than individual or singular campaigns.

ADVERTISING IN RETAIL

Marketing & promotion help facilitate exchange by providing information and context to consumers so that they are better able to understand how a specific good or service can meet their needs. Regardless of how well conceived, designed, positioned or priced a product or service may be, it cannot "speaks for itself." It will not "sell itself," if consumers are not aware of it or do not understand how it resolves a problem or issue for them.

Earlier, you learned about differentiation within retail, i.e. how each retailer has a target segment they're trying to service through their assortment, pricing and other tactics. Thus, advertising is necessary to communicate these differences. Differentiation doesn't "speak for itself." Instead, retailers use out-bound advertising to consumers to communicate how they're different. For example, Wal-Mart uses its advertising to showcase the breadth of its assortment and pricing to highlight the message, "Save Money. Live Better." Target, its part, uses advertising for visual impact, showcasing style and design to highlight the message, "Expect More. Pay Less."

Further, in-store promotion, in the form of merchandising, reinforces the differentiation, showing consumers how the assortment, signage, pricing and other features of the retailer solve the issues that are important to them. Returning to Wal-Mart, think about their Rollbacks, guarantees to match prices and use of shoppable displays, pallets and PDQs (pre-made display quantities). Now, compare this to target, which employs less signage and displays to present a "cleaner" shopping experience. Further, think about the lead-in to your Target store. Likely, you pass the One Spot, which features $1 items, before moving into apparel. Promotional tools like merchandising reinforce each retailer's respective positioning and complement their out-bound advertising.

Advertising and promotion are also fundamentally important for helping consumers make product or service selections. And, in retail where the fight for attention is most intense, manufacturers and their brands are desperate to grab a consumer's attention to encourage action/ transaction. The result can be "noise" or

advertising clutter, making it more and more difficult to "break-through" with relevant messages. But, marketers have a wide assortment of tools to use at the Point of Purchase (POP)—from the product to the shelf to off-shelf displays.

To begin, product packaging is a canvas upon which marketers communicate brand messages, product features and benefits. It can be updated to offer:

- Seasonal or special graphics
- Specialty sizes
- Bonus packs, i.e. sellable units with extra pieces
- Trial packs, i.e. sellable units with a free sample of a related item
- Special packs, i.e. packages banded together to offer additional value or variety

Further, shelving and shelf location can be used to communicate with consumers. For example, both Campbell's and Pillsbury have developed custom fixtures to accommodate their products and reinforce their brands in the soup and refrigerated dough categories, respectively. Channel strips, which run along the face of the shelf and are often the place where price tags are placed, can be customized for brand and product messages. Shelf Talkers, e.g. stickers, die-cuts and wobblers, are placed on the shelf, but extend into the aisle to attract shopper attention.

Outside of the shelf, there are also a number of ways for brands to break-through to consumers. For example:

- Floor graphics, i.e. durable vinyl graphics that can be customized for brand images and messages, which are placed on the floor
- Displays
  - o End Caps, i.e. a display for a product placed at the end of an aisle
  - o Side Caps i.e. a display for a product placed at the side of the aisle end—usually Powerwing or Sidekick displays
  - o Shoppable Pallets, i.e. 40" x 48" shipping pallets, which have been configured with consumer shopping units, not shipping units. (Note: products usually ship in case packs, not individual units. Shoppable pallets, however, do not have cardboard outer cases.)
  - o Displays, e.g. PDQs like Pop-ups, Slantbacks, Powerwings Sidekicks and Counter Displays. These units have pre-made display quantities and are shipped directly from the manufacturer to retail. They are known by a number of names, dependent upon their shape and how they're used. But, the important piece to remember is that they're branded display vehicles intended to merchandise products away from their home shelf location and to generate attention for impulse purchases.

Each of these tools helps shoppers gather information and/ or evaluate options. Thus, marketing & promotion facilitates transactions. It is relevant for retailers trying to draw-in consumers and for brands trying to drive sales in-store.

SALES PROMOTIONS IN RETAIL

The variety of sales promotions in retail is limited by only the creativity of the marketer. That's to say, if you can imagine a way to convey value to the consumer, you can create a compelling promotion. That said, it is best to focus on value AND simplicity. Simplicity ensures that consumers easily understand the offer and qualification. When promotions are made complex, either by requirements or by timing, they reduce the likelihood of participation.

Some common retail sales promotions are:

- Price discounts
    - o Value, e.g. "x now $1.99"
    - o Value off, e.g. "Save $1.00"
    - o Percent off, e.g. "25% Off"
- BOGO, i.e. Buy one, get one
- Buy One, Get____, i.e. a derivation of BOGO, but the "get' can be adjusted for another value like "50% off" or "for only $3"
- Price Multiples, e.g. 2 for $4.00 or 4 for $5.00
- Rebates, i.e. manufacturer discounts that can be applied at the point of purchase or after customer action like mail-in
- Coupons
- Bonus packs, i.e. sellable units with extra pieces
- Trial packs, i.e. sellable units with a free sample of a related item

These promotional vehicles are not all uniform. Instead, there are advantages to each, dependent upon context or strategic need. For example, price discounts can be used effectively to encourage trial or transactions. This can be especially helpful when introducing a new item or when trying to manage high inventory levels. Bonus and Trial Packs are also effective in encouraging trial. Price multiples, including Buy/ Get options, are useful tools, when trying to get additional market share or to expand consumption. Rebates, especially for higher ticket items, allow manufacturers to track customer information, potentially repurposing it for future direct marketing activity. Coupons can encourage trial, reward multiple purchases or shift share. However, it should be understood that their requirements, e.g. collection, presentation at the time of purchase and fixed period, result in them having very low redemption rates (1-2%), undermining their effectiveness.

Regardless of the chosen tool, there are countless ways to communicate value to consumers. Thus, retail sales promotions are powerful tools for encouraging trial, driving transactions and rewarding loyal customers.

DIRECT MARKETING IN RETAIL

In the section on *Traditional and New Media*, a distinction was made between types of media. New Media referred to channels that allow for nuance or hyper-targeting. It can be interactive and comparatively decentralized, allowing consumers to engage in two-way communication with firms and their brands. It can be optimized to have higher resonance with consumers, making messages, offers and promotions more targeted, relevant and engaging. New Media includes:

- Internet Search
- Social Media
- E-mail
- Direct Mail
- Telemarketing
- Direct-response, a message transmitted through traditional media communications that requires the reader, viewer, listener or customer to respond directly to the organization[43] E.g. The Home Shopping Network
- In-product Communication, i.e. delivery of marketing content directly to a user's internet-connected deviceor software application

With this in-mind, it becomes easy (easier) to see the potential advantages of including new media channels in the Integrated Marketing Communication (IMC) mix. That is, brands can communicate directly to consumers and potential customers. Over time, dependent upon activity, engagement and customer behavior, they can test, customize and optimize offers to ensure the highest levels of impact.

Implicit with this is the understanding that firms are able to track customer activity on digital platforms, using cookies and pixels. This helps them re-target and engage them with customized offers. Further Customer

Relationship Management and database tools help firms segment customers and potential customers by their behavior. This could be reflected in their engagement with the brand, e.g. webpages they view, e-mail solicitations they open or products they add to their on-line shopping cart but later abandon. Firms can then adjust messaging or offers to improve response rates, whether the intended outcome is engagement or transaction or other.

In practice, think about looking at shopper card data to describe a customer profile that has potentially lapsed in their purchase frequency or volume. This doesn’t mean we’re looking at the data of a single individual. Instead, think about this as reviewing similar data across a population of shoppers who fit a specific type. For example, perhaps they purchased $25 in cereal monthly at the retailer for a period of at least 6 months, but are now purchasing <$10 per month. The importance of this population is clear, i.e. $15/ month in lost Cereal Category revenue. If this population is 100 or 1,000 or 10,000 the change is important.

While it would be ideal to understand what has led to the change in behavior, that will require different (and potentially more rigorous) work. For now, our goal should be to quickly try to recapture the lost sales. Thus, we want to reactivate this population. And, because we have their shopper card data, we might know a lot about them—name, address, e-mail address, phone, etc. This would allow us to customize an offer to them.

Perhaps we’d begin with an e-mail offering $2.00 off on a purchase of 3 qualifying cereals. With technology, we could track the open rate on the e-mails, i.e. what percentage of the total distribution opened the e-mail. Further, we might track downloads of the coupon or in-store redemptions. This would reflect whether the offer had resonance. If unsuccessful, we might consider another offer or inducement. For example, we might text a unique coupon offer to them, offering a discount of purchases of 4 boxes of cereal or more and limiting redemption to only our retail store(s).

As this example illustrates, direct marketing, empowered by new media, gives retailers and manufacturers several tools for engaging consumers directly. As such, these offers can be optimized, making messages, offers and promotions more targeted, relevant and engaging. As such, direct marketing can be an important consideration for IMC.

ONLINE MEDIA AND RETAIL

It's likely very easy to conflate on-line activity with e-commerce, thinking only of the web as a place to transact, not necessarily as a channel through which marketers advertise and promote. Yet, it's important to step back from e-commerce efforts and evaluate on-line search as a tool that helps consumers interact with firms and their brands. Equally important, when these are owned assets, i.e. the web properties of the firms and brands themselves, they become even more important messaging vehicles. That is, marketers are responsible for creating, curating and managing content, so that it has the most value and resonance for shoppers.

For example, digital marketing, including both Search Engine Optimization (SEO) and Search Engine Marketing (SEM) is used to connect sellers with potential buyers. As you read in *Module 3: Multi-Channel Retailing*, SEO requires web development, optimization and maintenance to ensure the on-line visibility of a firm's website in natural or organic search. SEM, for its part, is a form of paid advertising that increases the visibility of a firm's website in search engine results, i.e. through Google or Bing. Firms bid on key words to ensure that when searches using those keywords are made, their website appears among the search results. But, regardless, the goal of each is to deliver curious and/ or interested shoppers to owned websites, where marketers have placed relevant content in multiple media—copy, photography, animation or video.

But, not all on-line activity takes place on owned media assets like company and brand websites. Instead, consumers and shoppers might find themselves on independent sites, which offer ratings & reviews. Or, they might traffic blogs or video blogs, where influencers give their assessment of brands and products. This can have particular impact, if critiques are negative or the influencer has a broad following, which amplifies the issue for the firm.

That said, on-line properties can be helpful elements of the IMC mix. In particular, marketers should look for opportunities to leverage their owned platforms, given their control over content management. However, this works only is the firm is making the appropriate investments to ensure SEO and to support SEM.

SOCIAL MEDIA AND RETAIL

Social Media can be a powerful element of the IMC Mix for three (3) important reasons:

1. Consumers opt-in to engage with the firm, its brand or products
2. The firm, its brand or products can optimize their message for the channel
3. Social Media allows for two-way communication and a multiplier effect

The importance of the first factor cannot be over-stated. Consumers who opt-in to engage with a brand communicate a level of interest that marketers cannot determine through traditional media. That is, when a consumer "comes to you" and expresses interest, marketers should be confident that they have an interested prospect who can be developed into a customer.

Second, social media can provide platforms for the firm, its brand or products to communicate in a natural way with consumers and its customers. That is, firm owns the medium, whether Twitter, Instagram or Facebook. Thus, they can curate their content for more nuanced or expansive messages. Unlike television or radio or even print, which have physical limitations, e.g. time or space, social networks allow firm and brands to message in the way that best suits them, e.g. long form storytelling, video, imagery. Further, brands can express their personality, confident that the majority of their social media followers are loyal customers and supporters. Think about the positive reaction Wendy's has gotten from their Twitter activity.

The final consideration is that social media supports the consumer, giving them a platform with which to engage the firm or brand directly. In fact, one of the emerging benefits of Twitter is that firms are using it as a Customer Service platform, monitoring critiques, complaints issues in real-time to resolve concerns. But, this doesn't have to be limited to current customers and failures of service. Instead, potential customers can also use social media to ask questions and solicit feedback from current customers. This is where the multiplier effect comes into play. There is the organized firm/ brand response, but also the content creation from loyal and engaged consumers.

OTHER MEDIA ELEMENTS

In these past three sections (*Types of Sales Promotions in Retail*, *Direct Marketing Tactics in Retail* and *Social Media and the IMC Mix*) you've read about a number of promotional tools and how marketers *might* use them as part of Integrated Marketing Communication (IMC). However, you should not infer that these are the best or the only tools that should be considered in any campaign you develop. Instead, the examples we've shared are illustrative of how traditional and new media can be leveraged outside and inside the store to help communicate firm, brand and product messages with consumers. Again, you will want to select the best channels for your campaign, given: budget, strategy and the competitive environment.

PUTTING IT TOGETHER: INTEGRATED MARKETING COMMUNICATIONS AND PROMOTIONS

The emergence of digital technology, social media and mobile devices has led to significant changes in how consumers shop for and engage with brands—the emergence of an omni-channel, i.e. the varied interactions in the shopping process that consumers have pre-, during and post-purchase. The resulting proliferation of channels and fragmentation of target audiences means that advertising & promotional activity must be integrated together. The benefit is that this creates a multiplier effect, potentially maximizing impact on the target audience. But, it necessitates that the marketers selects the channels that are the best fit for their budget, strategy and the competitive situation. Further, they must ensure that all messaging is consistent, complementary and customized for the appropriate channel.

MODULE 15: CUSTOMER SERVICE STRATEGIES

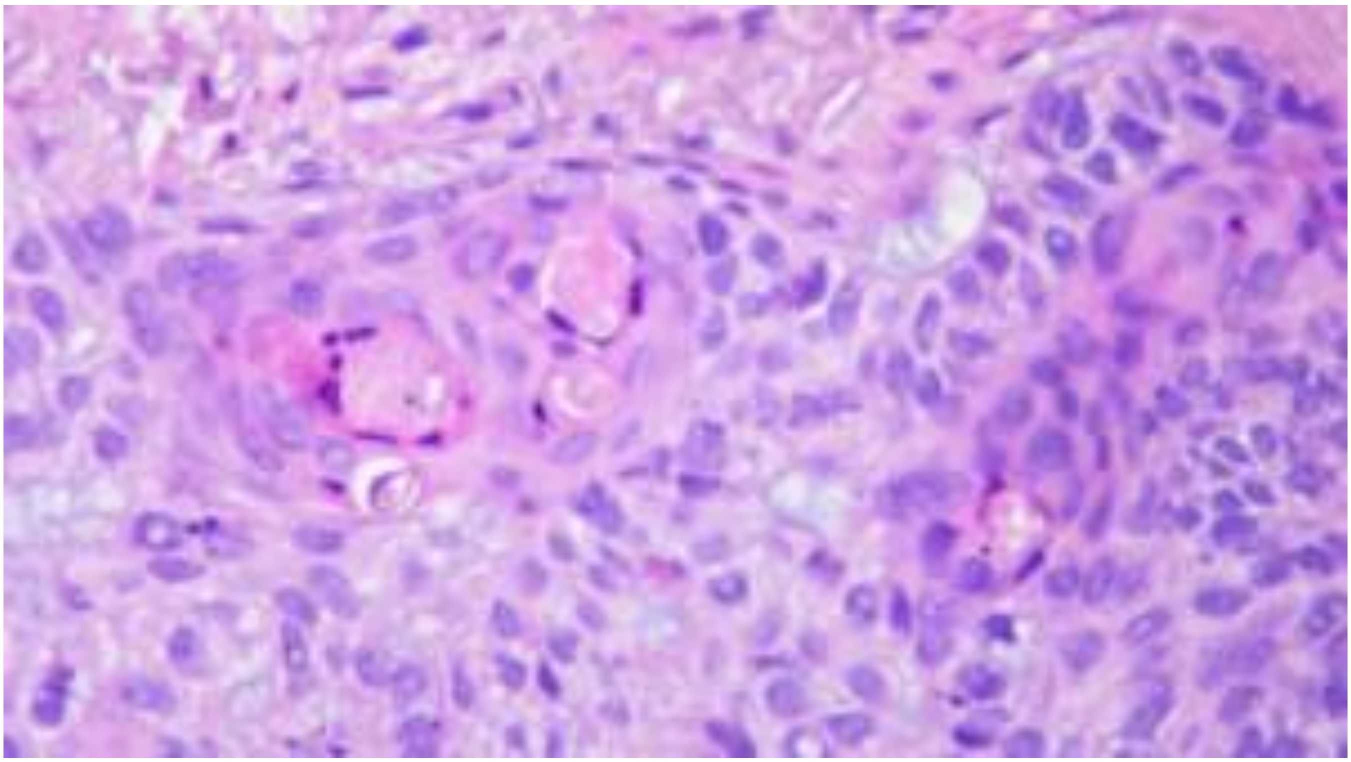
WHY IT MATTERS: CUSTOMER SERVICE STRATEGIES

Why learn about customer service strategies?

In this module you'll learn why customer service strategies are an integral part of making all aspects of retail operations successful. In fact, customer service is arguably the most important aspect of retail. Walmart founder Sam Walton himself once said, "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else." Walton's understanding of the importance of developing long-term, mutually beneficial relationships with customers by using critical strategies like profiling customer characteristics and excelling at service was critical in amassing millions of loyal shoppers over the past four decades. (Source: Entrepreneur – Sam Walton: Bargain Basement Billionaire.)

INTRODUCTION TO CUSTOMER SERVICE STRATEGIES

What you'll learn to do: Identify how retailers can use excellent customer service as a differentiation tool



In biology, cells sometime differentiate by changing form from a relatively generalized state to a more specialized life form. Likewise, retailers have found success in differentiating themselves from other similar businesses by distinguishing themselves by providing unique service qualities from offering faster, timely product deliveries to emphasizing more reliable, dependable performance. (Source: dictionary.com.)

CUSTOMER SERVICE

LEARNING OUTCOMES

- Define customer service

cus·tom·er

serv·ice noun

noun: customer service; plural noun: customer services

1. the assistance and advice provided by a company to those people who buy or use its products or services.

Depending on who you ask, the definition of customer service varies widely depending on the understanding of the basic terms "customer" and "service." A quick Internet search reveals thousands of interpretations of this ubiquitous business terminology. For example, the American Marketing Association defines customer service as "a customer-oriented corporate philosophy that integrates and manages all of the elements of the customer interface within a predetermined cost-service mix." Meanwhile, the National Retail Federation often describes customer service as something that's NOT a skill but rather the result of learning and applying a combination of skills including planning, problem-solving, decision-making, critical thinking, and professionalism. (Source:CUSTOMER SERVICE 2 24 CUSTOMER SERVICE AND SALES FUNDAMENTALS nrf.com/ foundation.) Luxury automotive retailer Carl Sewell wrote in his bestselling book, Customers for Life: How to Turn That One-Time Buyer Into a Lifetime Customer, that customer service is simply asking what customers want and giving it to them.

Regardless of the definition, customer service is dependent on the act of meeting (and hopefully exceeding) the wants and needs of customers.

CUSTOMER PROFILES

What is a customer

When asked, most people understand what a customer is since virtually everyone on the planet is, at one time or another, a customer of something or somebody else. Whether buying socks at a clothing store, eating at a

restaurant, or streaming an online movie, the customer is, in fact, the very essence of retail. Customers, though, can be defined into two distinct groups: internal and external.

Internal Customers

Internal customers are all the employees, vendors, and other stakeholders of a business. This concept, attributed to quality management expert Joseph M. Juran, was only introduced in the late 1980s. Previously only those individuals or organizations who purchased goods or services were considered customers. Today, those traditionally viewed as customers (e.g., those who shop in store, buy products, etc.) are now considered external customers.

1. W. Marriott, of Marriott International, a corporation renowned for providing exceptional customer service, emphasizes taking good care of their employees because, “If you take care of them, they’ll take care of your customers and the customers will keep coming back again and again.” Not only is Marriott International currently the world’s largest hotel company but it’s also continuously mentioned as one of the best places to work in the world.

Diana Dosik, a principal for Boston Consulting Group, further emphasized the importance of focusing on internal customer service during her TED talk, “Why we need to treat our employees as thoughtfully as our customers.”

External Customers

Being able to answer five fundamental questions, the “5Ws,” who, what, when, where, and why about any customer, is vital in providing excellent customer service. The answers to the 5Ws create a profile of varying demographic, psychographic, and product usage characteristics. “Who”question factors, for example, may include age, gender, income, race, religion, sexual orientation, education, location, marital, and familial status. Likewise, “why” questions may help determine the purpose of the purchase, such as a business buying a ream of paper for printing invoices or for parents buying the same paper for their children to draw pictures. Together answering the 5Ws helps retailers identify ideal customers through a process called market segmentation, the grouping of prospective customers into groups, or segments, that have common needs and respond similarly to a marketing action. (Source: Investopedia.com.)

OFFERED SERVICES

PERSONALIZED VS. STANDARDIZED SERVICE

The industrial age and the advent of mass merchandising introduced the concept of ready-to-wear garments to the fashion industry. Before industrialization, clothing was handmade. Each dress, shirt, pant, or suit was individually measured, cut, and sewn by a tailor to fit one person. This process was both time-consuming and relatively expensive for most people. Shortly after the end of World War II, ready-to-wear, or “off-the-rack,” clothing made in factories became very popular, in part, because clothing manufacturers could make standardized outfits that were affordable and did not require any timely alterations. Most Americans viewed the standardization of the apparel industry as an advancement in service. (Source: Design Quarterly.)

Service Standardization

A recent study from the Center for Leading Innovation & Cooperation suggests that standardizing services will continue to play an important role in further developing the service economy, which includes retail. By making similar services with different characteristics and structures comparable, service standardization promotes reliability, effectiveness, trust, and improved economic efficiency. The CLIC defines standardization as a process of unification, especially in terminology, capabilities of personnel, technology, and organizational processes. In essence, “standardization simplifies everyday life.” (Source: CLIC – Service Standardization.)

Retailers often employ standardization strategies in store layouts, purchasing, labeling, branding, and a myriad of other operational activities. Retailers standardize customer service specifically to ensure uniform quality of treatment of all customers, both internal and external. Some examples of customer service standardization within the retail industry include ensuring product availability, emphasizing customer courtesy, safeguarding branding consistency, practicing pricing accuracy, demonstrating promotional responsiveness, and enabling overall service efficiency. (Source: Customer Service Experts.)

Personalized Service

Ironically, many 21st century retailers might appear to be headed back in time, returning to the days of less service standardization and instead more personalized service. This, however, is not a business regression but instead another method of service differentiation. Personalization is a method of adding value to customer choice. In fact, personalization today often relies on technology to more effectively and efficiently implement a new range of services that would otherwise be impossible.

For example, the Container Store, a leading specialty retailer of storage and organization products in the United States, introduced a new "next generation" architectural design, merchandising strategy, and proprietary digital resources to its flagship store specifically to help customers accomplish their projects, maximize their space, and make the most of their homes on a personal basis. According to company officials, the technology components were chosen after many rounds of customer testing, which showed that customers' biggest hurdle in beginning a project was feeling overwhelmed. The store features 18 digital screens supporting customers as they shop, featuring everything from inspiration and tips, to an interactive design tool and even a new proprietary digital experience called The Organization Studio. This technology allows customers to upload a photo or video of their organizational challenge online, describe the challenge, and set an in-store appointment to meet with a store Organization Expert. The Organization Experts then present the personalized solution they developed for the customer free of charge and with no purchase commitment.

"We know that countless retailers are building digital tools and using them to innovate the shopping experience, but combining the human element with technology is when things really get powerful," said Val Richardson, vice president of real estate at The Container Store. "The Organization Studio offers the convenience of an online experience and marries it with a personalized in-store engagement that offers a curated solution created by a real person." (Source: containerstore.com.)

INTRODUCTION TO THE CUSTOMER EVALUATION PROCESS

What you'll learn to do: explain the key components of the customer evaluation process

Measuring customer satisfaction is an important element of customer empowerment. But satisfaction alone is a minimal level of acceptable performance. It means that the customer's expectations were met. Getting positive word of mouth requires exceeding those expectations. To minimize the number of complaints a company needs an effective process of both handling complaints and understanding their causes so any problems can be corrected. Because the complaint process itself is subject to complaints, monitoring your firm's customer satisfaction levels also means you must monitor how satisfied customers are with your company's complaint handling system.

References:

14.3 Customer Satisfaction

PERCEPTION VS. EXPECTATION

LEARNING OUTCOMES

- Define customer perception and customer expectation

Customer Satisfaction Defined

What comes to mind when you hear someone say, “A satisfied customer”? Perhaps it is an image of someone smiling with the pride of knowing he got a good deal. Or perhaps it is the childlike look of happiness someone exhibits after purchasing a new pair of shoes that are just the right color. Whatever your picture of a satisfied customer is, customer satisfaction is typically defined as the feeling that a person experiences when an offering meets his or her expectations. When an offering meets the customer’s expectations, the customer is satisfied.

Improving customer satisfaction is a goal sought by many businesses. In fact, some companies evaluate their salespeople based on how well they satisfy their customers; in other words, not only must the salespeople hit their sales targets, they have to do so in ways that satisfy customers. Teradata is one company that pays its salespeople bonuses if they meet their customer satisfaction goals.

Customer satisfaction scores have been relatively stable for the past few years as illustrated in Table 14.2 “Industry-Average Customer Satisfaction Scores, 2000–2010”. You might think that if increasing the satisfaction of customers were, indeed, the goal of businesses, the scores should show a steady increase. Why don’t they? Maybe it’s because just satisfying your customers is a minimal level of performance. Clearly customer satisfaction is important. However, it isn’t a good predictor of a customer’s future purchases or brand loyalty. For example, one study of customer satisfaction examined car buyers. Although the buyers rated their satisfaction levels with their purchases 90 percent or higher, only 40 percent of them purchased the same brand of car the next time around (Lambert-Pandraud, et. al., 2005).

Keep in mind, though, that satisfaction scores are a function of what the customer expected as well as what the company delivered. So the flat scores in Table 14.2 “Industry-Average Customer Satisfaction Scores, 2000–2010” reflect rising customer expectations as well as improved products. In other words, the better products get, the more it takes to satisfy consumers.

There is also a downside to continuously spending more to satisfy your customers. Recent research shows that firms that do so can experience higher sales revenues. However, after the additional spending costs are factored in, the net profits that result are sometimes marginal or even negative. Nonetheless, satisfaction is not unimportant. A company’s performance on key factors is critical both in terms of the loyalty and satisfaction it generates among its customers (Souki & Filho, 2008).

Customer Satisfaction

So what or how much should you do to improve the satisfaction of your customer? If customer satisfaction can be defined as the feeling a person experiences when an offering meets his or her expectations, then there are two critical ways to improve customer satisfaction. The first is to establish appropriate expectations in the minds of customers. The second is to deliver on those expectations.

We know that dissatisfied customers are likely to tell many more friends about their negative experiences than satisfied customers are about good experiences. Why? Because there’s more drama in unmet expectations. A story about met expectations—telling a friend about a night out that was average, for example—is boring. Jan Carlson, a former Scandinavian Airlines executive, was famous for promoting the concept of “delighted” customers. Carlson’s idea was that delighting customers by over-exceeding their expectations should result in both repeat business and positive word of mouth for a firm. The fact that stories about plain old satisfaction are boring is also why influencer communities, such as JCPenney’s Ambrielle community, are so important. Influencers have new offerings to talk about, which are interesting topics, and other buyers want to know their opinions.

Establishing appropriate expectations in the minds customers is a function of the prepurchase communications the seller has with them. If you set the expectations too low, people won't buy your offering. But if you set the expectations too high, you run the risk that your buyers will be dissatisfied. A common saying in business is "underpromise and overdeliver." In other words, set consumers' expectations a bit low, and then exceed those expectations in order to create delighted customers who are enthusiastic about your product. A seller hopes that enthusiastic customers will tell their friends about the seller's offering, spreading lots of positive word of mouth about it.

One customer satisfaction strategy that grew out of Carlson's idea of delighting customers is to empower customer-facing personnel. Customer-facing personnel are employees that meet and interact with customers. In a hotel, this might include desk clerks, housekeepers, bellman, and other staff. Empowering these employees to drop what they're doing in order to do something special for a customer, for example, can certainly delight customers. In some organizations, employees are even given a budget for such activities.

Ritz-Carlton employees each have an annual budget that can be spent on customer service activities, such as paying for dry cleaning if a customer spilled red wine on a dress in the hotel's restaurant. Sewell Cadillac is famous for how its employees serve its customers. An employee will even pick up a customer up on a Sunday if a Sewell-purchased car breaks down. Other dealers might delegate such a service to another company, but at Sewell, the same salesperson who sold the car might be the person who handles such a task. To Sewell, customer service is too important to trust to another company—a company that perhaps won't feel the same sense of urgency to keep car buyers as satisfied as Sewell does.

Companies like Ritz-Carlton also monitor Twitter and other social media so that any problems can be identified in real time. For example, one newlywed tweeted that the view outside her window of another wall was no way to spend a honeymoon. A Ritz-Carlton employee caught the tweet and employees at the hotel responded with a room upgrade.

Empowerment is more than simply a budget and a job description—frontline employees also need customer skills. Companies like Ritz-Carlton and Sewell spend a great deal of time and effort to ensure that employees with customer contact responsibilities are trained and prepared to handle small and large challenges with equal aplomb.

Another customer satisfaction strategy involves offering customers warranties and guarantees. Warranties serve as an agreement that the product will perform as promised or some form of restitution will be made to the customer. Customers who are risk-averse find warranties reassuring.

One form of dissatisfaction is postpurchase dissonance, which we described in Chapter 3 "Consumer Behavior: How People Make Buying Decisions". Recall that it is also called buyer's remorse. Postpurchase dissonance is more likely to occur when an expensive product is purchased, the buyer purchases it infrequently and has little experience with it, and there is a perception that it is a high-risk purchase. Many marketers address postpurchase dissonance by providing their customers with reassuring communications. For example, a boat dealer might send a buyer a letter that expresses the dealer's commitment to service the boat and that also reminds the buyer of all the terrific reasons he or she purchased it. Alternatively, the dealer could have the salesperson who sold the boat telephone the buyer to answer any questions he or she might have after owning and operating the boat for a couple of weeks.

SERVICE QUALITY PERCEPTIONS

LEARNING OUTCOMES

- Describe the main characteristics that affect service quality perceptions

Measuring Customer SatisfactionTo measure customer satisfaction, you need to able to understanding what creates it. Just asking customers, “Are you satisfied?” won’t tell you much. Yet many companies often measure the satisfaction of their customers on the basis of only a few questions: “How satisfied were you today?” “Would you recommend us to your friends?” and “Do you intend to visit us again?”

Effective customer satisfaction measures have several components. The two general components are the customer’s expectations and whether the organization performed well enough to meet them. A third component is the degree of satisfaction, or to put it in terms we’ve used to describe exceptional performance, is the customer delighted?

To figure out if a customer’s expectations were met and they are delighted, more detail is usually required. Companies might break the offering into major components and ask how satisfied customers were with each. For example, a restaurant might ask the following:

Were you greeted promptly by a host? By your server at your table?
Was your order taken promptly?
How long did you wait for your food?
Was the food served at the appropriate temperature?
These questions assume that each aspect of the service is equally important to the customer. However, some surveys ask customers to rate how important they are. Other surveys simply “weight,” or score, questions so that aspects that are known to be more important to customers have a greater impact on the overall satisfaction score. For example, a restaurant might find that prompt service, good taste, and large portions are the only three factors that usually determine customers’ overall satisfaction. In that case, the survey can be shortened considerably. At the same time, however, space should be left on the survey so customers can add any additional information that could yield important insight. This information can be used to find out if there are customer service problems that a firm wasn’t aware of or if the preferences of consumers in general are changing.

You will still find customer satisfaction survey cards that just ask, “How satisfied were you today?” “Would you recommend us to your friends?” and “Do you intend to visit us again?” The information obtained from these surveys can still be useful if it’s paired with a more comprehensive measurement program. For instance, a sample of customers could be given the opportunity to provide more detailed information via another survey and the two surveys could be compared. Such a comparison can help the company pinpoint aspects that need improvement. In addition, the company has given every customer an opportunity to provide input, which is an important part of any empowerment strategy.

CUSTOMER EXPECTATIONS

LEARNING OUTCOMES

- Explain the role of customer expectations in determining the value of service perceived

Complaint Management Strategies

When buyers want to complain about products or companies, they have many ways to do so. They can complain to the companies they're upset with, tell their friends, or broadcast their concerns on the Internet. People who use every Internet site possible to bash a company are called verbal terrorists. The term was coined by Paul Greenberg, a marketing analyst who authored the wildly popular book CRM at the Speed of Light.

Should companies worry about verbal terrorists? Perhaps so. A recent study indicates that customer satisfaction scores could be less important to a firm's success or failure than the number of complaints its gets (Lou & Homburg, 2008). To measure the tradeoff between the two, customer satisfaction guru Fred Reicheld devised something called the net promoter score. The net promoter score is the number of recommenders an offering has minus the number of complainers (Reicheld, 2006). The more positive the score, the better the company's performance. According to another recent study, a company with fewer complaints is also more likely to have better financial performance.

Studies also show that if a company can resolve a customer's complaint well, then the customer's attitude toward the company is improved, possibly even beyond the level of his or her original satisfaction. Some experts have argued, perhaps jokingly, that if this is the case, a good strategy might be to make customers mad and then do a good job of resolving their problems. Practically speaking, though, the best practice is to perform at or beyond customer expectations so fewer complaints will be received in the first place.

Customers will complain, though, no matter how hard firms try to meet or exceed their expectations. Sometimes, the complaint is in the form of a suggestion and simply reflects an opportunity to improve the experience. In other instances, the complaint represents a service or product failure.

When a complaint is made, the process for responding to it is as important as the outcome. And consumers judge companies as much for whether their response processes seem fair as whether they got what they wanted. For that reason, some companies create customer service departments with specially trained personnel who can react to complaints. Other companies invest heavily in preparing all customer-facing personnel to respond to complaints. Still other companies outsource their customer service. When the service is technical, marketers sometimes outsource the resolution of complaints to companies that specialize in providing technical service. Computer help lines are an example. Technical-support companies often service the computer help lines of multiple manufacturers. A company that outsources its service nonetheless has to make sure that customer complaints are handled as diligently as possible. Otherwise, customers will be left with a poor impression.

Handling the Complaint Process

A good customer complaint handling process involves the steps listed below. Note that one step is to acknowledge the customer's feelings. A customer who is angry or upset due to a failure does not want to be patronized or have his or her problems taken lightly. The situation is important to the customer and should be important to the person listening and responding to the complaint.

Listen carefully to the complaint
Acknowledge the customer's feelings

Determine the root cause of the problem
Offer a solution
Gain agreement on the solution and communicate the process of resolution
Follow up, if appropriate
Record the complaint and resolution
Note that the complaint-resolution process involves communicating that process and gaining agreement on a solution, even if the customer sometimes might not like the outcome. He or she still needs to know what to expect.

Finally, the complaint process includes recording the complaint. We stated earlier that a firm's best strategy is to perform at or beyond the customer's expectations so as to minimize the number of complaints it receives in the first place. Analyzing your company's complaints can help you identify weak points in a service process or design flaws in a product, as well as potential miscommunications that are raising customer' expectations unreasonably. To conduct this analysis, however, you need a complete record of the complaints made.

A complaint record should reflect the main reason an offering failed. Typically, the failure can be attributed to one (or more) of the following four gaps (Levy & Weitz, 2009):

The communication gap. Overstating the offering's performance level, thereby creating unrealistic expectations on the part of customers.
The knowledge gap. Not understanding the customer's expectations or needs, which then leads a company to create a product that disappoints the customer.
The standards gap. Setting performance standards that are too low despite what is known about the customers' requirements.
The delivery gap. Failing to meet the performance standards established for an offering.
You can attribute the complaints your company receives to one of the four gaps and then use the information to figure out what must be done to fix the problem, assuming you have one. If the problem is overstating the performance, then perhaps your firm's marketing promotions materials should be reviewed. If it appears that the offering is simply not meeting the needs of your customers, then more work should be done to identify exactly what they are. If your firm is aware of the needs of its customers but there is a gap between their requirements and the standards set for your firm's performance, then standards should be reviewed. Finally, your company's processes should be examined to ensure that standards are being met.

When the Smokey Bones chain of barbecue restaurants (owned by Darden Restaurants) noticed falling profits, managers cut costs by eliminating some items from the menu. Unfortunately, these were the items that made the chain unique; once they were gone, there was nothing distinctive about the chain's offerings. When customers complained, servers replied, "Yes, a lot of people have complained that those products are no longer available." But apparently, there was no process or way to get those complaints to register with the company's management. As a result, the company didn't realize why it was losing customers, and its profits continued to spiral downward. Many locations were closed and the company filed for bankruptcy.

Keep in mind that the complaint handling process itself is subject to complaints. As we mentioned, customers want a process that's fair, even if the outcome isn't what they hoped for. Consequently, monitoring your firm's customer satisfaction levels also means you must monitor how satisfied customers are with how their complaints were handled.

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in this and the previous sections. This short quiz does not count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

References:

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INTRODUCTION TO THE GAP MODEL OF SERVICE QUALITY

GAP 1: CUSTOMER EXPECTATION VS. MANAGEMENT PERCEPTION

Gap between consumer expectation and management perception: This gap arises when the management or service provider does not correctly perceive what the customer wants or needs. For instance – hotel administrators may think guests want better food or in-house restaurant facilities, but guests may be more concerned with the responsiveness of the staff or the cleanliness of their rooms.

Factors that affect the size of the knowledge gap include:

- Market research: Before introducing a new product or service into the market, a company must conduct market research to understand whether there would be any demand for the product, and what features should be incorporated. The better this process is conducted, the smaller the knowledge gap will be. There are methods of ensuring that customer desires are taken on board. These include comprehensive studies, gauging satisfaction after individual transactions (surveys immediately after a purchase is made), customer panels and interviews, and through customer complaints.
- Communication channels: The fewer the layers between management and customer contact personnel, the more likely that customer preferences will be incorporated into higher-level decision making on the product.

GAP 2: MANAGEMENT PERCEPTION VS. QUALITY SPECIFICATIONS

Gap between management perception and service quality specification: This is when the management or service provider might correctly perceive what the customer wants, but may not set a performance standard. An example here would be that hospital administrators may tell the nurse to respond to a request ‘fast’, but may not specify ‘how fast’.

GAP 3: QUALITY SPECIFICATIONS VS. SERVICE

DELIVERY

Gap between service quality specification and service delivery: This gap may arise in situations pertaining to the service personnel. It could happen due to poor training, incapability or unwillingness to meet the set service standard. An example would be when a doctor’s office has very specific standards of hygiene communicated but the hired staff may have been poorly trained on the need to follow these strict protocols.

GAP 4: SERVICE DELIVERY VS. EXTERNAL

COMMUNICATIONS

Gap between service delivery and external communication: Consumer expectations are highly influenced by statements made by company representatives and advertisements. The gap arises when these assumed

expectations are not fulfilled at the time of delivery of the service. For example – a hospital printed on its brochure may have clean and furnished rooms but in reality, it may be poorly maintained – in this case, the patient’s expectations are not met.

GAP 5: ACTUAL PERFORMANCE VS. PERCEIVED SERVICE GAP

Gap between expected service and experienced service: This gap arises when the consumer misinterprets the service quality. The physician may keep visiting the patient to show and ensure care, but the patient may interpret this as an indication that something is really wrong.