



Thirteenth Edition

Retail Management

A Strategic Approach

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 Pearson

RETAIL MANAGEMENT

A Strategic Approach

THIRTEENTH EDITION

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*To Linda; Glenna, Paul, Danielle, Sophie, and Joshua;
and Lisa, Ben, Philip, Emily, and Levi*

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To Amit; Amal, Bharati, and Parnali; and Trisha and Raaka

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Preface

We are quite proud and *very* thankful to have produced a book that has been so enduringly popular. The book has been adopted by universities and colleges around the world, and it has been translated into Chinese and Russian.

Both Joel and I (Barry) are pleased to welcome a new co-author for this edition. Dr. Patrali Chatterjee (Ph.D. in Management with a major in Marketing) is a Full Professor of Marketing in the Feliciano School of Business at Montclair State University. She is currently an officer for the American Collegiate Retailing Association (ACRA). She has published her research in several academic journals and been featured in business media, as well. Professor Chatterjee has also consulted for several *Fortune 500* companies.

As we move further into the twenty-first century, our goal is to seamlessly meld the traditional framework of retailing with the realities of the competitive environment and the emergence of high-tech as a backbone for retailing. *Retail Management: A Strategic Approach* is a cutting-edge text, while retaining the coverage and features most desired by professors and students. To remain timely, we regularly post material about current events at our blog (www.bermanevansretail.com), which already has more than 1,500 posts and viewers from 180 countries.

Our enthusiasm for teaching and writing remains quite high. We all teach a full schedule of undergraduate and graduate courses in the Zarb School of Business at Hofstra University (Barry and Joel) and the Feliciano School of Business at Montclair State University (Patrali); both schools are fully accredited by AACSB International. We have been all been active in and supportive of ACRA. Barry has served as president and is in the ACRA Hall of Fame, while Joel has edited several conference proceedings and Patrali is an officer on the board.

The concepts of a strategic approach and a retail strategy remain our cornerstones. We were the first authors to take this primary orientation to the teaching of retail management. With a strategic approach, the fundamental principle is that the retailer has to plan for and adapt to a complex, changing environment. Both opportunities and constraints must be considered. A retail strategy is the overall plan or framework of action that guides a retailer. Ideally, it will be at least one year in duration and outline the mission, goals, consumer market, overall and specific activities, and control mechanisms of the retailer. Without a pre-defined and well-integrated strategy, the firm may flounder and be unable to cope with the environment that surrounds it. Through our text, we want the reader to become a good retail planner and decision maker and be able to adapt to change.

Retail Management is designed as a one-semester text for students of retailing or retail management. Due to the flexible pedagogical elements that accompany the book and the ability of the instructor to cover all or selected chapters in the book, *Retail Management* has been used by four-year and two-year schools, in undergraduate and graduate courses, and by business schools and nonbusiness schools. In many cases, students will have already been exposed to marketing principles. We feel retailing should be viewed as one form of marketing and not distinct from it.

NEW TO THE THIRTEENTH EDITION

Since the first edition of *Retail Management: A Strategic Approach*, we have sought to be as contemporary and forward-looking as possible. We are proactive rather than reactive in our preparation of each edition. That is why we still take this adage of Walmart's founder, the late Sam Walton so seriously: "Commit to your business. Believe in it more than anybody else."

For the Thirteenth Edition, there are many changes in *Retail Management*:

1. All data and examples are as current as possible and reflect the current economic and world situations as much as possible. We believe it is essential that our book take into account the economic environment that has dramatically affected so many businesses and consumers.
2. There is now extensive coverage of omnichannel retailing—an evolving practice whereby the best retailers understand and seamlessly integrate all of their interactions across channels (including stores, online, mobile, social media, and more).

3. ALL NEW CHAPTER-OPENING VIGNETTES—each relating to the evolving nature of retailing. We had a lot of fun writing these vignettes:
 - Chapter 1: Multichannel versus Omnichannel Experiences
 - Chapter 2: The Role of Digital and Traditional Channels in Delivering in-Store Service
 - Chapter 3: Brand Intimacy: How Consumers Form Bonds with Brands
 - Chapter 4: Tesla Motors Seeks to Bypass the Franchise Dealer Network
 - Chapter 5: The Evolution of Factory Outlets
 - Chapter 6: Buy Online, Pick Up In Store Programs
 - Chapter 7: Online Groceries: Traditional Grocer’s New Threat
 - Chapter 8: Lip Service Versus Real Customer Service
 - Chapter 9: Trading-Area Analysis for Traditional and Destination Retailers
 - Chapter 10: The Impact of Store Closings on Shopping Centers
 - Chapter 11: Strategies to Reduce Retail Employee Turnover
 - Chapter 12: Incremental Versus Zero-Based Budgeting
 - Chapter 13: Facial Recognition: The Faceoff Against Retail Credit Card Fraud
 - Chapter 14: Amazon’s Dash Button
 - Chapter 15: American Eagle Outfitters New Distribution Center
 - Chapter 16: Strategies to Reduce Markdowns
 - Chapter 17: Retailer Price Matching Programs
 - Chapter 18: The In-Store Service Imperative
 - Chapter 19: Apps with Generation Z Appeal
 - Chapter 20: Customer Satisfaction Suffers: American Customer Satisfaction Data

4. ALL NEW BOXES! **They now include thought-provoking questions.** Topics include:
 - a. *Technology in Retailing*
 - Chapter 1: Generating Location-Sensitive Offers
 - Chapter 2: Automated Customized Service
 - Chapter 3: Retail Planning Software
 - Chapter 4: Loyalty Programs
 - Chapter 5: Sephora’s Phygital Makeover
 - Chapter 6: Bringing Concierge Service to Online Shopping
 - Chapter 7: Use of Big Data by Macy’s
 - Chapter 8: Mobile Beacons and Data Collection
 - Chapter 9: GIS Systems
 - Chapter 10: Lease Management Software
 - Chapter 11 Job Listing Web Sites
 - Chapter 12: The Impact of Self-Scanning on Impulse Sales
 - Chapter 13: Energy Management
 - Chapter 14: Store Planning Software
 - Chapter 15: Retailers Taking the Right Steps to Fight Shrinkage
 - Chapter 16: Point-of-Sale (POS) Systems
 - Chapter 17: Oracle Markdown Software
 - Chapter 18: 3D Afoot
 - Chapter 19: Smartphone Couponing
 - Chapter 20: Retail Planning Using EXCEL

 - b. *Retailing Around the World*
 - Chapter 1: Assessing the Canadian Marketplace for Expansion by a Toy Retailer
 - Chapter 2: Lane Crawford; Selling Luxury Goods in Hong Kong
 - Chapter 3: Handling Payments from Global Customers
 - Chapter 4: KFC in China
 - Chapter 5: McDonald’s Investments in Russia
 - Chapter 6: The Global Retail E-Commerce Index
 - Chapter 7: Succeeding in Developing Countries
 - Chapter 8: Studying a Consumer’s Purchase Journey
 - Chapter 9: Opportunities in Puerto Rico
 - Chapter 10: Pop-Up Stores
 - Chapter 11: Recruiting of Retail Executives
 - Chapter 12: Ikea’s Global Results

- Chapter 13: Countries' Payment-Related Issues
- Chapter 14: Domestic Versus Global Sourcing
- Chapter 15: Processing Foreign Credit Cards
- Chapter 16: Gray Market Sourcing
- Chapter 17: Game Stores: Africa's Largest Discounter
- Chapter 18: Hyatt Hotels Promotes Global Social Responsibility
- Chapter 19: Burberry's Chinese Promotional Strategy
- Chapter 20: Best Buy's Failure in China

c. *Ethics in Retailing*

- Chapter 1: Environmental Sustainability
- Chapter 2: Adapting to the Latest American with Disabilities Act (ADA) Guidelines
- Chapter 3: Deceptive Price Advertising
- Chapter 4: Unethical Behavior by Franchisors
- Chapter 5: Bargaining Power by Category Killers
- Chapter 6: Sales Tax Collection By Online Retailers
- Chapter 7: Selling Add-Ons
- Chapter 8: Retail Security Breaches
- Chapter 9: Gentrification Issues
- Chapter 10: Shopping Center Leases
- Chapter 11: Part-Time Employees Growing in Numbers
- Chapter 12: Restrictive Loan Covenants
- Chapter 13: Corporate Responsibility at Target
- Chapter 14: What's a Fair Return Policy
- Chapter 15: Upcycling: A Form of Green Marketing
- Chapter 16: Markdown Allowances
- Chapter 17: Trust and Fairness in Revenue Management
- Chapter 18: Product Reviews on the Web
- Chapter 19: Using of Promotional Goods
- Chapter 20: Why Do Poor Ethics Occur?

d. *Careers in Retailing*

- Chapter 1: Hiring From Within Versus Best Person for the Job
- Chapter 2: Category Managers
- Chapter 3: "Builders," "Maintainers," and "Undertakers"
- Chapter 4: Succession Planning
- Chapter 5: Considering Being a Retail Buyer as a Career
- Chapter 6: Web Developers
- Chapter 7: Marketing Research as a Career
- Chapter 8: Careers in Customer Relationship Management
- Chapter 9: Trading-Area Analysis Careers
- Chapter 10: Site-Selection Based Careers
- Chapter 11: Buyer Training
- Chapter 12: Retail Financial Analyst
- Chapter 13: Security Personnel
- Chapter 14: Buying for a Retailer's Private-Label Program
- Chapter 15: Opportunistic Buying by Discounters
- Chapter 16: Retailing Accounting Careers
- Chapter 17: Carol Meyrowitz of TJX
- Chapter 18: Joseph Bona's Design Career Path
- Chapter 19: Omnichannel Promotions Manager
- Chapter 20: Retail Audit Personnel

- 5. ALL NEW! 30 shorter cases, as well as 8 comprehensive cases. Every case is based on real companies and real situations. Cases include:
 - a. Short cases:

Part One

- 1. Retailers MUST Be Future-Oriented
- 2. Stores that Accommodate Those with Physical Limitations

3. Is the Proliferation of Job Titles Helping or Hurting?
4. Competition and Quick Foodservice

Part Two

1. Do Power Players Rule?
2. Will the Favorites of Today Remain Popular?
3. Omnichannel Strategies of Top Retailers
4. Omnichannel Food Retailing Still Needs Work

Part Three

1. Eating Patterns in America
2. The Convenience Economy Comes of Age
3. Are Hot Retailers of 2015 Still Hot?
4. Navigating the Shopper Universe Through Big Data

Part Four

1. Are Smaller and Faster Better?
2. Organize, Optimize, Synchronize
3. Removing Barriers to Cross-Border Commerce
4. Warehouse Management: Right Time, Right Place

Part Five

1. Assistant Store Manager
2. Manager, Training and Development
3. Senior Manager of Digital Operations
4. Retail Shrinkage: A Significant Problem

Part Six

1. Buyer of Sports Equipment
2. Adapting to the Internet of Things (IoT)
3. High Marks by Suppliers and Wholesalers for Convenience Stores
4. Data-Driven Pricing

Part Seven

1. Keep It Simple
2. More than Price
3. Enhancing the In-Store Experience Through Facial Recognition Software
4. Revitalizing Customer Loyalty

Part Eight

1. Envision the Future: Part 1
2. Envision the Future: Part 2

a. Part Cases:

Part One: Ideas Worth Stealing

Part Two: What Consumers Find Expendable Vs. Untouchable

Part Three: How Do You Attract and Satisfy Millennials?

Part Four: Autenticidad en Acción: Mexican Delights the Real Deal at Food City Remodel

Part Five: Predicting Retail Trends

Part Six: Knocking Off the Knockoffs

Part Seven: Inside the Mind of Shake Shack's Founder

Part Eight: Achieving Excellence in Retailing

6. MANY photos and images have been replaced or updated throughout.
7. The hundreds of PowerPoint slides that accompany the book have been fully revised; **AND** there are descriptions related to each slide.
8. Our blog (www.bermanevansretail.com) has been updated. We have a current (multiple posts each week), dynamic, multimedia, interactive blog just for students and professors interested in retailing. There is a lot of cool stuff there. Please join us at (www.bermanevansretail.com). Both our Web site and blog have a lot of career material. There are more than 325 career-related posts at the blog.

Substantive Changes for the Thirteenth Edition by Chapter

- ▶ **Chapter 1 (An Introduction to Retailing).** The importance of omnichannel retailing is highlighted. We describe Home Depot’s overall strategy and its approach to the complex marketplace. And to properly capture the importance of the economic situation facing retailers today, we update the chapter appendix to reflect the state of economy after the worldwide recession period: “Understanding the Recent Economic Environment in the United States Around the Globe.” The appendix covers the U.S. economy, the global effects of the downturn, the effect of the current economic climate on retailing, and strategic options for retailers.
- ▶ **Chapter 2 (Building and Sustaining Relationships in Retailing).** There is more coverage of “value” and “relationships” in retailing—with both customers and other channel members. Retailer interactions with customers depend on the customer base and customer service, and they have an impact on customer satisfaction; and there are different types of loyalty programs. Emerging technologies often enable retailers to form stronger relationships; and retailer ethics can stimulate or deter shoppers. The end-of-chapter appendix (“Planning for the Unique Aspects of Service Retailing”) reflects current thinking on service retailing.
- ▶ **Chapter 3 (Strategic Planning in Retailing).** There is greater attention to strategic planning in today’s marketplace, with numerous examples. The software that supplements the section of this chapter devoted to a strategic planning template—*Computer-Assisted Strategic Retail Management Planning*—has been updated and is available for download at our blog (www.bermanevansretail.com). The chapter appendix (“The Special Dimensions of Strategic Planning in a Global Retailing Environment”) notes the challenges for retailers operating outside their home markets and various trends in global retailing.
- ▶ **Chapter 4 (Retail Institutions by Ownership).** All of the data on retail ownership formats (independents, chain-owned, franchisee-operated, leased departments, owned by manufacturers or wholesalers, or consumer-owned) have been updated. The appendix on franchising opportunities (“The Dynamics of Franchising”) presents current information on various aspects of franchising.
- ▶ **Chapter 5 (Retail Institutions by Store-Based Strategy Mix).** All of the data on store-based retail strategies have been updated – 14 strategic formats in all that are divided into food-based and general-merchandise-based categories. There are numerous new examples.
- ▶ **Chapter 6 (Web, Nonstore-Based, and Other Forms of Nontraditional Retailing).** The emerging and critical omnichannel perspective of retailing is discussed in more detail in this chapter than in Chapter 1; and single-channel, multichannel, and omnichannel retailing are contrasted. The coverage of online retailing reflects the present state of the Web and mobile channels, and includes many examples. There is a fully updated and refocused appendix on retail supply chains (“Omnichannel Retailing”) and its impact.
- ▶ **Chapter 7 (Identifying and Understanding Consumers).** There is a strong emphasis on the retailing ramifications of the empowered consumer, as well as consumer characteristics, attitudes, and behavior. We include current demographic data on U.S. and foreign consumers, consumer profiles, and shopping attitudes and behavior.
- ▶ **Chapter 8 (Information Gathering and Processing in Retailing).** This chapter looks at information flows in a retail distribution channel and notes the ramifications of inadequate research. We then describe the retail information system, database management, and data warehousing. The barcode discussion is enhanced.
- ▶ **Chapter 9 (Trading-Area Analysis).** There is new material on geographic information systems, as well as many new retail applications. We have increased the coverage of the TIGER digital mapping system, which is the basis for most geographic information systems’ software.
- ▶ **Chapter 10 (Site Selection).** We include many new retail applications and examples.
- ▶ **Chapter 11 (Retail Organization and Human Resource Management).** There is more emphasis on employee turnover and the human resource environment in retailing, as well as updated coverage of women and minorities in retailing. We also have substantially revised some of the organization charts.
- ▶ **Chapter 12 (Operations Management: Financial Dimensions).** We have new material on incremental and zero-based budgeting, as well as updated information on key business ratios, financial trends, and resource allocation.

- ▶ **Chapter 13 (Operations Management: Operational Dimensions).** There is a new discussion of digital payment systems, as well as updated material on operations issues in retailing.
- ▶ **Chapter 14 (Developing Merchandise Plans).** Innovative practices are highlighted. We place greater emphasis on a merchandising-based philosophy and the activities necessary to carry it out. There is updated coverage of merchandising practices, the popularity of private brands (including a new quiz), and category management.
- ▶ **Chapter 15 (Implementing Merchandise Plans).** There is enhanced coverage of the power of large retailers, RFID (radio frequency identification), logistics, and inventory management.
- ▶ **Chapter 16 (Financial Merchandise Management).** There is updated coverage of financial merchandise management, including unanticipated markdowns.
- ▶ **Chapter 17 (Pricing in Retailing).** We focus on the retailer's need to provide value to customers, regardless of its price orientation—and the growing power of the consumer due to online comparison shopping.
- ▶ **Chapter 18 (Establishing and Maintaining a Retail Image).** We place more focus on the total retail experience (both in the store and online), retail positioning, and atmospherics and Web-based retailers, as well as how to increase shopping time.
- ▶ **Chapter 19 (Promotional Strategy).** There are many new applications and examples—especially with regard to mobile apps and social media—and a strong strategic emphasis on the retail promotional strategy.
- ▶ **Chapter 20 (Integrating and Controlling the Retail Strategy).** There is an in-depth discussion on integrating the retail strategy in today's high-tech marketplace, as well as how to assess a strategy, with a detailed example based on TJX.
- ▶ **Appendix (Careers in Retailing).** We emphasize the strong long-term possibilities (through 2024) for careers in retailing. There is a new table citing 10 retail positions with unique responsibilities.

BUILDING ON THE E-VOLUTION OF RETAIL MANAGEMENT: A STRATEGIC APPROACH

From a retailer perspective, we see four formats—all covered in *Retail Management*—competing in the new millennium (cited in descending order of importance):

- ▶ **Combined “bricks-and-mortar” and “clicks-and-mortar” retailers.** These are store-based retailers that also offer online shopping, thus providing customers the ultimate in choice and convenience. Virtually all of the world's largest retailers, as well as many medium and small firms, fall into this category; and they are omnichannel retailers. This is clearly the fast-growing format in retailing. Even Amazon.com, a long-time online only retailer, is now opening some physical stores.
- ▶ **Clicks-and-mortar retailers.** These are the online-only retailers that have emerged. Rather than use their own physical store facilities, these companies promote a “virtual” shopping experience: wide selections, convenience, and—sometimes—low prices. Among the firms in this category are Priceline—the discount airfare and hotel retailer—and Zappos—the retailer of shoes, apparel, and a whole lot more.
- ▶ **Direct marketers with clicks-and-mortar retailing operations.** These are firms that have relied on traditional nonstore media such as print catalogs, direct selling in homes, and TV infomercials to generate business. Almost of them have added Web sites to enhance their businesses. Leaders include Lands' End and QVC. These direct marketers will continue to see a dramatic increase in the proportion of sales coming from the Web.
- ▶ **Bricks-and-mortar retailers.** These are companies that rely on their physical facilities to make sales. They do not sell online but use the Web for providing information and customer service and for image building. Auto dealers typically offer product information and customer service online but conduct their sales transactions at retail stores. Firms in this category represent the smallest grouping of retailers. Many will need to rethink their approach as online competition intensifies.

We now have access to more information sources, from global trade associations to government agencies. The information in *Retail Management*, Thirteenth Edition, is more current

than ever because we are using the original sources themselves and not waiting for data to be published months or a year after being compiled. We are also able to include a greater range of real-world examples because of the information at company Web sites.

Will this help you? Yes. You will benefit because our philosophy has always been to make *Retail Management* as reader-friendly, up-to-date, and useful as possible. In addition, we want students to benefit from our experiences—in this case, our E-xperiences.

Retail Management: A Strategic Approach, Thirteenth Edition, incorporates many E-features in the book; and at our lively and constantly updated blog (www.bermanevansretail.com).

Our blog includes many features that are intended to enrich both the student's and professor's understanding and appreciation of retailing. These include:

- ▶ More than 1,600 blog posts and counting. To stay current, we post multiple times EVERY week!
- ▶ A multimedia approach—with embedded videos, colorful infographics (charts with data), photos, and links to a huge number of real world sources.
- ▶ Post categories keyed to each of 8 parts of the book.
- ▶ Additional post categories on such important issues as: Careers in Retailing, Global Retailing, Nontraditional Retailing, Online Retailing, Privacy and Identity Theft, Social Media and Retailing, and Strategy Mix.

But, that's not all! Our Web site has career material; and each chapter of the book ends with a Web-based exercise.

BUILDING ON A STRONG TRADITION

Besides introducing the E-features just mentioned, *Retail Management*, Thirteenth Edition, carefully builds on its heritage as the market leader in strategic retail management. These features have been retained from earlier editions of *Retail Management*:

- ▶ A strategic decision-making orientation, with many illustrative flow charts, figures, tables, and photos. The chapter coverage is geared to the six steps used in developing and applying a retail strategy, which are first described in Chapter 1.
- ▶ Full coverage of all major retailing topics—including merchandising, consumer behavior, information systems, omnichannel retailing, store location, operations, logistics, service retailing, the retail audit, retail institutions, franchising, human resource management, computerization, and retailing in a changing environment.
- ▶ A real-world approach focusing on both small and large retailers.
- ▶ Real-world boxes on current retailing issues in each chapter. These boxes further illustrate the concepts presented in the text by focusing on real firms and situations.
- ▶ A numbered summary keyed to chapter objectives, a key terms listing, and discussion questions at the end of each chapter.
- ▶ Both short cases involving a wide range of retailers and retail practices and comprehensive cases.
- ▶ Up-to-date information from such sources as *Advertising Age*, *Businessweek*, *Chain Store Age*, *Direct Marketing*, *Entrepreneur*, *Fortune*, *Inc.*, *International Journal of Retail & Distribution Management*, *Journal of Retailing*, *Multichannel Merchant*, *Progressive Grocer*, *Retailing Today*, *Shopping Centers Today*, *Standard & Poor's, Stores*, and *Wall Street Journal*.
- ▶ End-of-chapter appendixes on service retailing (following Chapter 2), global retailing (following Chapter 3), and franchising (following Chapter 4).
- ▶ End-of-text appendix “Careers in Retailing” and a glossary.

HOW THE TEXT IS ORGANIZED

Retail Management: A Strategic Approach has eight parts. Part One introduces the field of retailing, the basics of strategic planning, the importance of building and maintaining relations, and the decisions to be made in owning or managing a retail business. In Part Two, retail institutions are examined in terms of ownership types, as well as store-based, nonstore-based, electronic, and nontraditional strategy mixes. The wheel of retailing, scrambled merchandising, the retail life

cycle, and the Web are covered. Part Three focuses on target-marketing and information-gathering methods, including discussions of why and how consumers shop and the retailing information system and data warehouse. Part Four presents a four-step approach to location planning: trading-area analysis, choosing the most desirable type of location, selecting a general locale, and deciding on a specific site.

Part Five discusses the elements involved in managing a retail business: the retail organization structure, human resource management, and operations management (both financial and operational). Part Six deals with merchandise management—developing and implementing merchandise plans, the financial aspects of merchandising, and pricing. In Part Seven, the ways to communicate with customers are analyzed, with special attention paid to retail image, atmosphere, and promotion. Part Eight deals with integrating and controlling a retail strategy.

At the end of the text, Appendix: Careers in Retailing highlights career opportunities in retailing. There is also a comprehensive Glossary.

INSTRUCTOR RESOURCES

At Pearson's Higher Ed catalog, <https://www.pearsonhighered.com/sign-in.html>, instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <https://support.pearson.com/getsupport> for answers to frequently asked questions and toll-free user support phone numbers. The following supplements are available with this text: • Instructor's Resource Manual • Test Bank • TestGen® Computerized Test Bank • PowerPoint Presentations. This title is available as an E-book and can be purchased at most E-book retailers.

Recommended Syllabi

A course in retail management is taught in a number of ways and according to different term calendars. Accordingly, here are two different recommended syllabi to assist instructors in their course preparation. These syllabi suggest coverage for schools on both the semester and quarter system.

These syllabi are merely recommended. We recognize that greater or lesser emphasis may be placed on particular retailing topics.

Recommended Syllabus for a 14-Week Semester Course

| Week | Amount of Coverage | Topics | Text Chapters |
|-------|--------------------|--|---------------|
| 1 | ½ week | An introduction to retailing | 1 |
| 1–2 | 1 week | Relationship retailing/strategic planning in retailing | 2, 3 |
| 2–3 | 1½ weeks | Retail institutions categorized by ownership, strategy mix, Web, nonstore, and other forms of nontraditional retailing | 4, 5, 6 |
| 4 | ½ week | Understanding consumer behavior | 7 |
| 4–5 | 1 week | Information systems and marketing research in retailing | 8 |
| 5–6 | 1½ weeks | Trading-area analysis and site selection | 9, 10 |
| 7–8 | 1½ weeks | Retail organization and human resource management; and operations management | 11, 12, 13 |
| 8–9 | 1 week | Buying and handling merchandise | 14, 15 |
| 9–10 | 1 week | Financial merchandise planning and management | 16 |
| 10–11 | 1 week | Pricing in retailing | 17 |
| 11–12 | 1 week | Establishing and maintaining a retail image | 18 |
| 12–13 | 1 week | Promotional strategy | 19 |
| 14 | 1 week | Integrating and controlling the retail strategy | 20 |

Recommended Syllabus for a 10-Week Semester Course

| Week | Amount of Coverage | Topics | Text Chapters |
|------|--------------------|--|---------------|
| 1 | ½ week | An introduction to retailing | 1 |
| 1–2 | 1 week | Strategic planning in retailing | 2, 3 |
| 2–3 | 1½ week | Retail institutions characterized by ownership, strategy mix, Web, nonstore, and other forms of nontraditional retailing | 4, 5, 6 |
| 4 | ½ week | Understanding consumer behavior | 7 |
| 4 | ½ week | Information systems and marketing research in retailing | 8 |
| 5 | 1 week | Trading-area analysis and site selection | 9, 10 |
| 6 | 1 week | Retail organization and human resource management; and operations management | 11, 12, 13 |
| 7 | 1 week | Merchandise management | 14, 15, 16 |
| 8 | 1 week | Pricing in retailing | 17 |
| 9 | 1 week | Establishing and maintaining a retail image, and promotional strategy | 18, 19 |
| 10 | 1 week | Integrating and controlling the retail strategy | 20 |

CONCLUDING REMARKS

As always, we are extremely “hands on” in developing and maintaining all instructor materials and teaching resources. Please feel free to send us feedback regarding any aspect of *Retail Management* or its package. We promise to reply to any correspondence.

Sincerely,

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Part 1

An Overview of Strategic Retail Management



Welcome to *Retail Management: A Strategic Approach*, 13th edition. We hope you find the book is informative, timely, action-oriented, and reader-friendly. Visit our popular blog (www.bermanevansretail.com) for interactive, useful, up-to-date features that complement the text—including chapter hotlinks, a study guide, and much more!

In Part One, we explore the field of retailing, establishing and maintaining relationships, and the basic principles of strategic planning and the decisions made in owning or managing a retail business.

Chapter 1 describes retailing, shows why it should be studied, and examines its special characteristics. We note the value of strategic planning, including a detailed review of Home Depot (a titan of retailing). The retailing concept is presented, along with the total retail experience, customer service, and relationship retailing. The focus and format of the text are comprehensive. An appendix, “Understanding the Recent Economic Environment in the United States and Around the Globe,” appears at the end of this chapter.

Chapter 2 looks at the complexities of retailers’ relationships—with both customers and other channel members. We examine value and the value chain, customer relationships and channel relationships, the differences in relationship building between goods and service retailers, the impact of technology on retailing relationships, and the interplay between ethical performance and relationships in retailing. The chapter ends with an appendix on planning for the unique aspects of service retailing.

Chapter 3 shows the usefulness of strategic planning for all kinds of retailers. We focus on the planning process: situation analysis, objectives, identifying consumers, overall strategy, specific activities, control, and feedback. We also look at the controllable and uncontrollable parts of a retail strategy. Strategic planning is shown as a series of interrelated steps that are continuously reviewed. A detailed computerized strategic planning template, available at our Web site, is described. At the end of the chapter, there is an appendix on the strategic implications of global retailing.



An Introduction to Retailing



Chapter Objectives

1. To define retailing, consider it from various perspectives, demonstrate its impact, and note its special characteristics
2. To introduce the concept of strategic planning and apply it
3. To show why the retailing concept is the foundation of a successful business, with an emphasis on the total retail experience, customer service, and relationship retailing
4. To indicate the focus and format of the text

Digital technologies such as Web 2.0, social media, and mobile media have dramatically altered how businesses and consumers get information, make decisions, communicate, transact, and own versus share possessions around the world. In this always-connected, 24/7/365 competitive retailing landscape, consumers choose how, when, and where they want to interact with retailers. Retailers are expected to be proactive and adaptive in anticipating their consumers' needs at the time and utilize an omnichannel approach to provide the customer with a seamless shopping experience, whether the customer is shopping online from a desktop or a mobile device, by telephone, or in a bricks-and-mortar store. Accordingly, in *Retail Management: A Strategic Approach*, we begin each chapter with a discussion of omnichannel perspectives relevant to the retailing topics in that chapter.

How do we distinguish between multichannel and omnichannel experiences? Multichannel retailing is associated with a retailer having separate channels—store and Web—as alternatives. A traditional multichannel retail environment has few linkages among these channel alternatives. Simply put, although shoppers can purchase an item through either channel, important linkages among channels may not exist. For example, consumers may not be able to view store inventories online, can be charged different prices in each channel, cannot arrange for store pickup on a Web order, may not return Web purchases to a local store, and a store and Web site can have separate customer databases.

In contrast, omnichannel retailing delivers a consistent, uninterrupted, and seamless brand experience regardless of channel or device (store, laptop computer, iPad, smartphone, etc.). Omnichannel retailing assumes that there are various shopping journey maps that use mobile, Web, and stores quite differently. As an example, product discovery can be Web or social-media-based, information search can use the Web or in-store observation, and consumers can purchase an item via a mobile device but seek to return it to a store. Omnichannel retailing is by nature seamless and integrated.

At www.bermanevansretail.com, we've set up a dynamic retailing blog with all sorts of interesting and current information—retailer links, career opportunities, news about the retail industry and individual retailers, and more. Check it out!

Many different kinds of retailers, both large and small, utilize multiple technologies, employ social and mobile media to communicate with customers, reinforce their images, introduce new locations and merchandise, sell products, run special promotions, and so much more.



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Overview

Retailing encompasses the business activities involved in selling goods and services to consumers for their personal, family, or household use. It includes every sale to the *final* consumer—ranging from cars to apparel to meals at restaurants to movie tickets. Retailing is the last stage in the distribution process from supplier to consumer.

Today, retailing is at a complex crossroad. On the one hand, retail sales are at their highest point in history (despite a dip during the 2008–2010 “Great Recession”). Walmart is the leading company in the world in terms of sales, but Amazon.com, predominately an online retailer with few physical stores as of this writing has an annual growth rate of 25 percent compared to 1 percent for Walmart.¹ New technologies are improving retail productivity. There are many opportunities to start a new retail business—or work for an existing one—and to become a franchisee. Global retailing possibilities abound, especially for pure-online retailers that can replicate their business models globally without the capital costs of store-based retailing.

On the other hand, retailers face numerous challenges. The rise of the U.S. dollar against major currencies in recent years has had a major impact on retailers, their suppliers, and consumers around the world. Many consumers are bored with shopping for products or do not have much time for it and are spending more for experiences. Some locales have too many stores, and retailers often spur one another into frequent price cutting (and low profit margins). Customer service expectations are high at a time when more retailers offer self-service, automated systems, and omnichannel ordering and pick-up services. Although online E-commerce accounts for only 7.1 percent of U.S. retail sales, today it is growing at a faster rate and displacing sales revenues at stores. Some retailers are still grappling with their omnichannel strategy in terms of capital and human resource investments for in-store versus digital formats; coordinating merchandising, pricing, and logistics across channels; and the relative emphasis to place on image enhancement, customer information and feedback, and sales transactions. The widespread proliferation of mobile and social media technologies has been difficult for many retailers to adapt to in their strategies all over the world. These are among the key issues that retailers must resolve:

How can we better serve our customers while earning a fair profit?

How can we stand out in a highly competitive environment where consumers have so many choices?

How can we better coordinate our merchandising, pricing, and service strategy across all our channels when costs, profit margins, and target segments differ across the channels?

How can we grow our business while retaining a core of loyal customers?

Retail decision makers can best address these questions by fully understanding and applying the basic principles of retailing in a well-structured, systematic, and focused retail strategy. That is the philosophy behind *Retail Management: A Strategic Approach*.

Can retailers flourish in today’s tough marketplace? You bet! Just look at your favorite restaurant, gift shop, and food store. Look at the success of retailers such as Costco, Starbucks, L Brands (whose major brands include Victoria’s Secret and Bath & Body Works), and Amazon.com. What do they have in common? A desire to please the customer and a strong market niche. To prosper in the long term, they all need a strategic plan and a willingness to adapt—both central thrusts of this book. See Figure 1-1.

In this chapter, we look at the framework of retailing, the value of developing and applying a sound retail strategy, and the focus and format of the text. A special appendix at the end of this chapter examines the impact of the global economic environment on retailers in the United States and around the world.

THE FRAMEWORK OF RETAILING

To appreciate the role of retailing and the range of retailing activities, let’s view it from three perspectives:

1. Suppose we manage a manufacturing firm that makes cosmetics. How should we sell these items? We could distribute via big chains such as Sephora or small neighborhood stores, have our own sales force visit people in their homes as Mary Kay does, or set up our own

Visit Amazon.com’s Web site (www.amazon.com) and see what drives one of the world’s “hot” retailers.

FIGURE 1-1**A Willingness to Adapt Is Essential for Retailers**

The most successful retailers over the long run are those which recognize that consumers and the marketplace are constantly evolving. They do research to get feedback and then act accordingly.

Source: iQconcept/Shutterstock. Reprinted by permission.



- stores (if we have the ability and resources to do so). We could sponsor TV infomercials or magazine ads, complete with a toll-free phone number.
2. Suppose we have an idea for a new way to teach first-graders how to use computer software for spelling and vocabulary. How should we implement this idea? We could lease a store in a strip shopping center and run ads in a local paper, rent space in a local YMCA and rely on teacher referrals, or do mailings to parents and visit children in their homes. In each case, the service is offered “live.” But there is another option: We could use an animated Web site to teach children online.
 3. Suppose that we, as consumers, want to buy apparel. What choices do we have? We could go to a department store or an apparel store. We could shop with a full-service retailer or a discount store. We could go to a shopping center or order from a catalog. We could patronize retailers that carry a wide range of clothing (from outerwear to jeans to suits) or firms that specialize in one clothing category (such as leather coats). We could surf the Web and visit retailers around the globe. We could also look at Facebook and see what other consumers are saying about various retailers.

Service businesses such as Jiffy Lube (www.jiffylube.com) are engaged in retailing.

There is a tendency to think of retailing as primarily involving the sale of tangible (physical) goods. However, retailing also includes the sale of services and digital goods. And this is a big part of retailing! A service may be the shopper’s primary purchase (such as a haircut) or it may be part of the shopper’s purchase of a good (such as furniture delivery). Sales in many physical goods—product categories such as books, movies, and music—are now dominated by their digital applications in the format of downloads. Obviously, retailing does not have to involve a store. Mail and phone orders, direct selling to consumers in their homes and offices, Web transactions, kiosks, and vending machine sales all fall within the scope of retailing. In fact, retailing does not even have to include a “retailer.” Manufacturers, importers, nonprofit firms, wholesalers, and individual artisans on online platforms, such as Etsy.com, act as retailers when they sell to final consumers.

Let’s now examine various reasons for studying retailing and its special characteristics.

Learn more about the exciting array of retailing career opportunities (www.allretailjobs.com).

Reasons for Studying Retailing

Retailing is an important field to study because of its impact on the economy, its functions in distribution, and its relationship with firms selling goods and services to retailers for their resale or use. These factors are discussed next. A fourth factor for students of retailing is the broad range of career opportunities, as highlighted with a “Careers in Retailing” box in each chapter, Appendix A at the end of this book, and our blog (www.bermanevansretail.com). See Figure 1-2.

THE IMPACT OF RETAILING ON THE ECONOMY Retailing is a major part of U.S. and world commerce. Retail sales and employment are vital economic contributors, and retail trends often mirror trends in a nation’s overall economy.

According to the Department of Commerce, annual U.S. retail store sales in 2015 were \$4.785 trillion—representing one-third of the total economy. During that year, more than one-fifth of the world’s retail sales occurred in the United States.² The weighted-average share of retail E-commerce in overall U.S. retail sales has been steadily growing from 3.4 percent in 2007 to 7.1 percent in 2015.³ Share of online retail sales is slightly higher in Europe at 7.5 percent and highest in the Asia-Pacific region at 10.2 percent. Telephone and mail-order sales by nonstore retailers, vending machines, and direct selling generate hundreds of billions of dollars in additional yearly revenues. Personal expenditures on financial, medical, legal, educational, and other services account for another several hundred billion dollars in annual retail revenues.

Durable goods stores—including motor vehicles and parts dealers; furniture, home furnishings, electronics and appliance stores; and building materials and hardware stores—make up 30 percent of U.S. retail store sales. Nondurable goods and services stores—including general merchandise stores; food and beverage stores; health- and personal-care stores; gasoline stations; clothing and accessories stores; sporting goods, hobby, book, and music stores; eating and drinking places; and miscellaneous retailers—together account for 70 percent of U.S. retail store sales.

The world’s 250 largest retailers generate more than \$4.6 trillion in annual revenues. They represent 29 nations. Seventy-six of the largest 250 retailers are based in the United States, 28 in Japan, 17 in Germany, 16 in Great Britain, and 15 in France. Five of the 250 top retailers are nonstore retailers.⁴ The 10 largest retailers in the United States generate nearly one trillion dollars in annual domestic revenues and more than 1.2 trillion dollars in total worldwide sales. They operate over 32,000 U.S. stores. See Table 1-1. Visit our blog (www.bermanevansretail.com) for additional information on retailing.

Retailing is a major source of jobs. In the United States alone, 15 million people—about one-tenth of the total labor force—work for traditional retailers (including food and beverage service firms, such as restaurants). Yet this figure understates the true number of people who work in retailing because it does not include the several million persons employed by other service firms, seasonal employees, proprietors, and unreported workers in family businesses or partnerships.

FIGURE 1-2 Encouraging People to Consider a Career in Retailing

To attract and retain high-quality, motivated workers, retailers should properly train them, empower them to be responsive to reasonable requests that may “break the rules” (without always having to ask the boss), and reward—and visibly recognize—superior performance. A key aspect of a meaningful reward system is an employee’s opportunities for upward mobility in terms of a better job and a bigger paycheck (promoting from within).

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TABLE 1-1 The 10 Largest Retailers Based in the United States

| Rank | Company | Web Address | Major Retail Emphasis | 2015 U.S. Sales (millions) | 2015 Number of U.S. Stores | 2015 Worldwide Sales (millions) |
|------|-------------------------|--------------------|---|----------------------------|----------------------------|---------------------------------|
| 1 | Walmart | www.walmart.com | Full-line discount stores, supercenters, membership clubs | \$353,108 | 5,182 | \$500,108 |
| 2 | Kroger | www.kroger.com | Supermarkets, convenience stores, jewelry stores | 103,878 | 3,747 | 103,878 |
| 3 | Costco | www.costco.com | Membership clubs | 83,545 | 476 | 116,671 |
| 4 | Home Depot | www.homedepot.com | Home centers | 79,297 | 1,965 | 88,621 |
| 5 | Walgreen Boots Alliance | www.walgreens.com | Drugstores | 76,604 | 8,052 | 92,670 |
| 6 | Target | www.target.com | Full-line discount stores, supercenters | 73,226 | 1,774 | 73,226 |
| 7 | CVS Health | www.cvshealth.com | Drugstores | 72,151 | 9,659 | 73,546 |
| 8 | Amazon.com | www.amazon.com | Web merchant | 61,619 | N/A | 104,060 |
| 9 | Albertsons | www.albertsons.com | Supermarkets, drugstores | 58,443 | 2,311 | 58,443 |
| 10 | Lowe's | www.lowes.com | Home centers | 57,486 | 1,805 | 59,051 |

Source: Based on material in David P. Schulz, “Stores Top 100 Retailers,” *STORES Magazine* (July 2016). Reprinted by permission Copyright 2016. STORES Magazine.

The *Occupational Outlook Handbook* (www.bls.gov/oco) is a great source of information on employment trends.

Retailing is the largest private-sector employer in the United States. According to the National Retail Federation, anyone whose employment results in a consumer product—from those who supply raw materials to manufacturers to truck drivers who deliver goods—counts on retail for their livelihood. With 35 million stores and the vast number of suppliers, the retail industry is responsible for 42 million jobs, and \$1.6 trillion in labor income, and it accounts for \$2.6 trillion of the U.S. gross domestic product (GDP).⁵

From a cost perspective, retailing is a significant field of study. In the United States in 2015, on average, 36 cents of every dollar spent in department stores, 47 cents spent in women’s apparel stores, and 28 cents spent in pharmacies and drugstores go to the retailers to cover operating costs, activities performed, and profits. Costs include rent, displays, wages, ads, and maintenance. Only a small part of each dollar is profit. Profit margins in the retail sector vary. Whereas audio/video and consumer electronics stores have pre-tax profit margins of 4.2 percent, the pre-tax profit margins averaged 2.1 percent for department stores in 2015.⁶ In its fiscal year ending January 31, 2016, Walmart, the world’s largest retailer, had after-tax profits of 3.1 percent of sales.⁷ Figure 1-3 shows costs and profits for Walgreens Boots Alliance, an international drugstore chain.



Hiring from within Versus Best Person for the Job

Two opposing human resources strategies in retailing are (1) limiting promotions to only those working within the firm versus (2) recruiting personnel from competing companies. The promote-from-within strategy reduces employee turnover, encourages employee loyalty, and develops specific career paths for current employees. It also minimizes the difficulty in training new employees on company policies.

The hire-from-outside strategy seeks the best person for the position regardless of employment history with the given retailer. This strategy encourages firms to adopt new ways of thinking and enables a retailer to attract personnel with skills and contacts developed at their prior firms.

Under what conditions should a retailer use the hire-from-outside strategy? How can a retailer using this strategy reduce the poor morale from existing staff?



FIGURE 1-3
The High Costs and Low Profits of Retailing—
Where the Typical \$100 Spent with Walgreens Boots Alliance Goes

Source: Computed and estimated by the authors from Walgreens Boots Alliance 2016 Reports.



RETAIL FUNCTIONS IN DISTRIBUTION Retailing is the last stage in a **channel of distribution**—all the businesses and people involved in the physical movement and transfer of ownership of goods and services from producer to consumer. A typical distribution channel is shown in Figure 1-4. Retailers often act as the contact between manufacturers, wholesalers, and the consumer. Many manufacturers would like to make one basic type of item and sell their entire inventory to as few buyers as possible, but consumers usually want to choose from a variety of goods and services and purchase a limited quantity. Retailers collect an assortment from various sources, buy in large quantity, and sell in small amounts. This is the **sorting process**. See Figure 1-5.

Another job for retailers is communicating both with customers and with manufacturers and wholesalers. Shoppers learn about the availability and characteristics of goods and services, store hours, sales, and so on from retailer ads, salespeople, and displays. Manufacturers and wholesalers are informed by their retailers with regard to sales forecasts, delivery delays, customer complaints, defective items, inventory turnover, and more. Many goods and services have been modified due to retailer feedback.

For small suppliers, retailers can provide assistance by transporting, storing, marking, advertising, and pre-paying for products. Small retailers may need the same type of help from their suppliers. The tasks performed by retailers affect the percentage of each sales dollar they need to cover costs and profits.

Retailers also complete transactions with customers. This means having convenient locations, filling orders promptly and accurately, and processing credit purchases. Some retailers also provide customer services such as gift wrapping, delivery, and installation. To make themselves even more appealing, many firms now engage in **omnichannel retailing**, whereby a retailer sells to consumers through multiple retail formats (points of contact). Most large retailers operate both physical stores and Web sites to make shopping easier and to accommodate consumer desires. Some firms provide information and sell to customers through multiple touch points: retail stores, mail order, Web sites, tablets, smartphones, and a toll-free phone number. See Figure 1-6.

For these reasons, products are usually sold through retailers not owned by manufacturers (wholesalers). This lets the manufacturers reach more customers, reduce costs, improve cash flow, increase sales more rapidly, and focus on their area of expertise. Select manufacturers, such

Sherwin-Williams (www.sherwin-williams.com) is not only a manufacturer but also a retailer.

FIGURE 1-4
A Typical Channel of Distribution

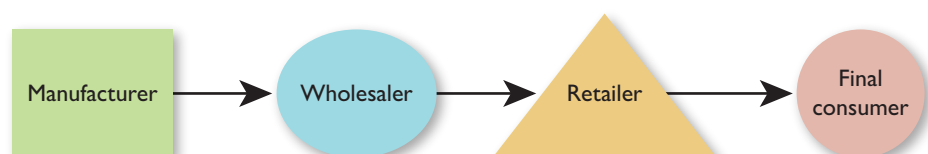
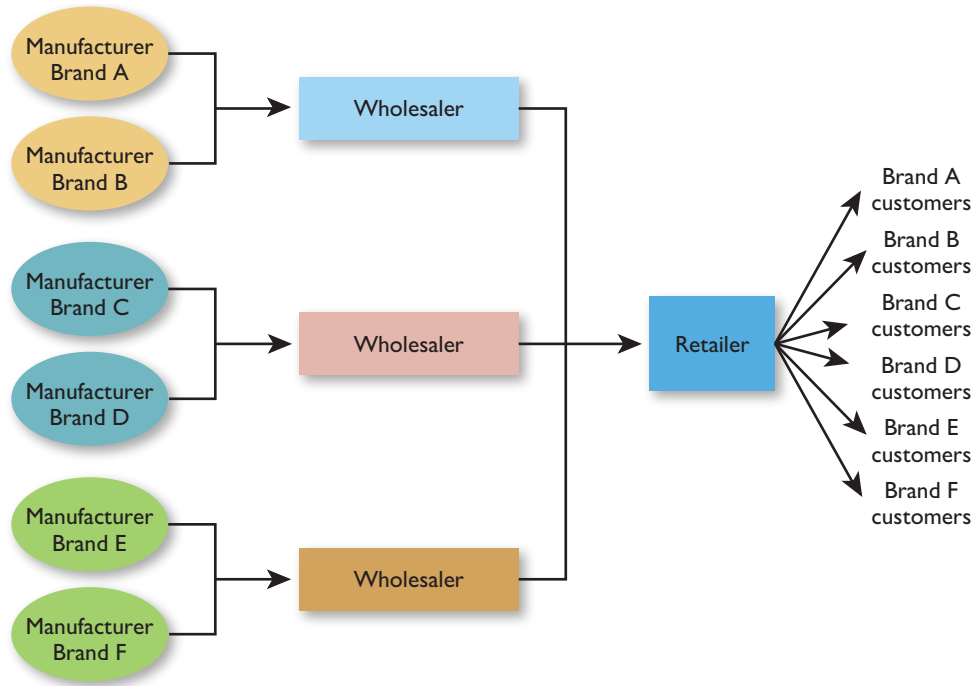


FIGURE 1-5
The Retailer’s Role in the Sorting Process



as Sherwin-Williams, Coach, and Nike, operate retail facilities (besides selling at independent retailers). In running their stores, these firms complete the full range of retailing functions and compete with conventional retailers.

THE RELATIONSHIPS AMONG RETAILERS AND THEIR SUPPLIERS Relationships among retailers and suppliers can be complex. Because retailers are part of a distribution channel, manufacturers and wholesalers must be concerned about the caliber of displays, customer service, store hours, and retailers’ reliability as business partners. Retailers are also major customers of goods and services for resale, store fixtures, computers, management consulting, and insurance.

These are some issues over which retailers and their suppliers have different priorities: control over the distribution channel, profit allocation, the number of competing retailers handling suppliers’ products, product displays, promotion support, payment terms, and operating flexibility. Due to the growth of large chains, retailers have more power than ever. Unless suppliers know retailer needs, they cannot have good rapport with them; so long as retailers have a choice of suppliers, they will choose those offering more.

FIGURE 1-6
The Multiple Retail Channels of WOM (World of Music)

WOM (World of Music) is a German-based retailer with physical facilities and a strong online presence <https://wom.de/?lang=en>. It offers many genres of music CDs and DVDs, movies, books, games, sheet music, and more—and even ships to the United States.

Source: Jules Selmes/Pearson Education Ltd. Reprinted by permission.



Channel relations tend to be smoothest with **exclusive distribution**, whereby suppliers make agreements with one or a few retailers that designate the latter as the only ones in specified geographic areas to carry certain brands or products. This stimulates both parties to work together to maintain an image, assign shelf space, allot profits and costs, and advertise. It also usually requires that retailers limit their brand selection in the specified product lines; they might have to decline to handle other suppliers' brands. From the manufacturers' perspective, exclusive distribution may limit their long-run total sales.

Channel relations tend to be most volatile with **intensive distribution**, whereby suppliers sell through as many retailers as possible. This often maximizes suppliers' sales and lets retailers offer many brands and product versions. Competition among retailers selling the same items is high; retailers may use tactics not beneficial to individual suppliers, because they are more concerned about their own results. Retailers may assign little space to specific brands, set very high prices on them, and not advertise them.

With **selective distribution**, suppliers sell through a moderate number of retailers. This combines aspects of exclusive and intensive distribution. Suppliers have higher sales than in exclusive distribution, and retailers carry some competing brands. It encourages suppliers to provide some marketing support and retailers to give adequate shelf space. See Figure 1-7.

The Special Characteristics of Retailing

Three factors that most differentiate retailing from other types of business are noted in Figure 1-8 and discussed here. Each factor imposes unique requirements on retail firms.

The average amount of a sales transaction for retailers is much less than for manufacturers. The average sales per customer transaction in retailing is low. The average supermarket transaction is about \$30.00.⁸ In comparison, Home Depot's average sales transaction in 2015 was \$58.55.⁹ The average sales transaction per shopping trip is well under \$100 for department stores and specialty stores. This low amount creates a need to tightly control the costs associated with each transaction (such as credit verification, sales personnel, and bagging); to maximize the number of customers drawn to the retailer, which may place more emphasis on ads and special promotions; and to increase impulse sales by more aggressive selling. However, cost control can be tough. For instance, inventory management is often expensive due to the many small transactions to a large number of customers. A typical supermarket has several thousand customer transactions *per week*, which makes it harder to find the proper in-stock level and product selection. Thus, retailers are expanding their use of computerized inventory systems.

FIGURE 1-7
Comparing Exclusive, Intensive, and Selective Distribution

