



8TH EDITION

Retailing

Dunne • Lusch • Carver



Retailing

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Retailing

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Dedication

To:

Virginia, for everything you have done for our family.

Robert Lusch

To:

Bob and Virginia Lusch, for carrying much of the load on this edition as I continue to work to recover and heal from all my surgeries on my leg; y'all are fantastic writers and friends.

James Carver

FOREWORD

The retail industry has faced many challenges, but one thing is certain: The industry is resilient and will come out on top. Retailers are innovative and dynamic, and the retail landscape is competitive. The many changes in the world of retailing also offer exciting times for retailers and consumers alike.

This eighth edition of *Retailing* gives the reader an insight into all aspects of retailing in a well thought out and methodical approach that is sensitive not only to the industry's current environment but also to its future changes. Professors Dunne, Lusch, and Carver have conducted the highest level of research to stay current with the industry. This enables the reader to engage in a well-rounded dialog about the retail industry. To gain the best possible understanding about the industry, this latest edition covers all major disciplines for retailing including m-commerce, e-commerce, human resources, operations, marketing, merchandising, multichannel retailing, finance, supply-chain management, and more. The conversational writing style presented in the book makes even the most critical issues easy to understand.

The National Retail Federation co-brands this eighth edition of *Retailing* by Dunne, Lusch, and Carver to encourage people who may be considering careers in retailing and others who may be beginning their journey into understanding retailing.

As the world's largest retail trade association and the voice of retail worldwide, NRF's global membership includes retailers of all sizes, formats and channels of distribution as well as chain restaurants and industry partners from the United States and more than 45 countries abroad. In the U.S., NRF represents an industry that includes more than 3.6 million establishments and which directly and indirectly accounts for 42 million jobs—one in four U.S. jobs. The total U.S. GDP impact of retail is \$2.5 trillion annually, and retail is a daily barometer of the health of the nation's economy.

It is our hope that your study of the retail industry reveals diverse challenges and opportunities for a fulfilling career that can last a lifetime.

Daniel Butler
Vice President Retail Operations
National Retail Federation

PREFACE

This edition continues to focus on the exciting and dynamic changes in retailing and its competitive environment, which is increasingly becoming global. In fact, this book has a stronger focus on global aspects of retailing and places more emphasis on the important world of fashion retailing. Because in difficult economic times strong financial performance is increasingly difficult to achieve, we, in this edition, emphasize in greater detail the key profit drivers in retailing. The writing style continues to be conversational, a style praised by students using our previous editions.

This edition of *Retailing*, like retailing itself, has undergone major revisions from previous editions. Due to the rapid change in the retail landscape, especially around the Internet and service(s), we have a new Chapter 14, which concludes the book. This chapter is very forward looking and is titled “Reframing Retail Strategy.” It vividly discusses how any retailer can be more service- and customer-centric, more focused on co-creating value with customers, suppliers, and other stakeholders. To accomplish this, the retailers need to reframe many parts of their business models and create more opportunities for customer engagement.

Most of the book’s story boxes (“Service Retailing,” “Retailing: The Inside Story,” and “What’s New?”) are new or updated. Many of the end-of-chapter cases are new and reflect the rapid changes occurring in retailing. More national retailers such as Macy’s, Buffalo Wild Wings, Zumiez, and Genuine Auto Parts are featured in these cases. We also now have integrative cases for each of the five parts of the book. This was something instructors requested and which students will benefit from by helping them improve the ability to integrate important retailing concepts and principles. These integrative cases are on such well-known retailers as Target, Walmart, Nordstrom, and Lowe’s. Because more students are considering launching their own retail enterprise, we have also included mini-cases and short exercises called “Starting Your Own Entrepreneurial Retail Business,” at the end of each chapter.

Given the growth of the Internet and e-tailing, we increase our coverage of this topic. We also discuss how the emergence of m-commerce, or retailing accomplished via the mobile phone, has become so critical to success in retailing. It is amazing how consumers and channel partners, in addition to retailers, are using the Internet and e-commerce and m-commerce in innovative ways. Hence, we offer an in-depth coverage of the topics that readers have come to expect. Consequently, we believe that students and instructors will like this edition even more than they did the highly successful first seven editions.

With retail supporting one in four jobs in the United States or 42 million jobs (www.retailmeansjobs.com), we strongly believe that retailing offers one of the best career opportunities for today’s students. Thus, *Retailing* was written to convey that message, not by using boring descriptions of retailers and the various routine tasks they perform, but by making the subject matter come alive by focusing on the excitement that retailing offers its participants in an easy-to-read conversational style filled with pictures and exhibits. This text demonstrates to the student that retailing as a career choice can be fun, exciting, challenging, and rewarding. Thus, excitement arises from selecting a merchandise assortment at market, determining how to present the merchandise in the store,

sales in an ever-changing economic environment. And the reward comes from doing this better than the competition. While other texts may make retailing a series of independent processes, this edition, like the first seven editions of *Retailing*, highlights the excitement, richness, and importance of retailing as a career choice. *Retailing* provides the student with an understanding of the interrelationship of the various activities that retailers face daily. To do this, we attempt to show how retailers must use both creativity and analytical skills in order to solve problems and pursue opportunities in today's fast-paced environment.

In keeping with our goal of maintaining student interest, *Retailing* focuses on the material that someone entering the retailing field would need to know. We were more interested in telling the student what should happen, and what is happening, than in explaining the academic “whys” of these actions. Thus, when knowledge of a particular theory was needed, we generally ignored the reasoning behind the theory for a simple explanation and an example or two of the use of the theory. In presenting these examples, we drew from a rich array of literature sources, as well as from our combined 90 years of work in retailing.

Students and teachers have responded favorably to the “personality” of *Retailing* because the numerous contemporary and relevant examples, both in the text itself and in each chapter's various story boxes, provide realistic insights into retailing. One student wrote to say “thanks” for writing a book that was “so interesting and not too long.” A faculty member noted she was “so pleased with the writing style because it was easier to understand, and the examples used were very appropriate and helped to present the material in a meaningful and easy-to-grasp manner for students.” Still another liked *Retailing* because the writing style was “conversational,” lending itself to very easy reading, so that she felt confident that her students would read the chapters. “The content coverage was excellent. Terms were explained in easy-to-understand language. And although most of the topics of an advanced retailing text were presented, the extent and presentation of the material was very appropriate to an introductory course.” Another reviewer was especially pleased that we were able to incorporate so many current examples.

Text Organization

Retailing, which features an attractive, full-color format throughout the entire text, is divided into five parts that are, in turn, divided into 14 chapters, which can easily be covered over the course of the term. Part 1 serves as an introduction to the study of retailing and provides an overview into what is involved in retail planning. Part 2 examines the environmental factors that influence retailing today: the behavior of customers, competitors, channels, as well as our legal and ethical behavior. Part 3 examines the role that location plays in a retailer's success. Part 4 deals with the operations of a retail store. This section begins with a chapter on managing the retailer's finances. Special attention in this section is given to merchandise buying and handling, pricing, promotion and advertising, personal selling, and store layout and design. The book concludes with Part 5, which focuses on the future of retailing and specifically how to reframe a retail enterprise for higher customer centricity and financial performance.

Chapter Organization

Each chapter begins with an “Overview” that highlights the key topic areas to be discussed. In addition, a set of “Learning Objectives” provides a description of what the

student should learn after reading the chapter. To further aid student learning, the text material is integrated with the learning objectives listed at the beginning of the chapters and the summaries at the end. In addition, the text features key terms in bold typeface, with the definition in the margin to make it easier for students to check their understanding of these key terms. If they need a fuller explanation of any term, then the discussion is right there—next to the definition.

The body of the text has photos, exhibits, tables, and graphs that present the information and relationships in a visually appealing manner. Each chapter has three retailing box features that cover the inside story of a particular retailing event or decision (“Retailing: The Inside Story”), retailers that provide services (“Service Retailing”), and what are new trends and technologies in retailing (“What’s New?”); and all cases are connected to issues presented in the chapter. Incidentally, many of the boxes feature global aspects of retailing. All of the boxes are lengthier real-world examples than can be incorporated in the regular flow of text material. Some of these box features are humorous, while others present a unique way to solve problems retailers faced in their everyday operations.

Every chapter ends with a student study guide. The first feature of this section of the text is the “Summary” of the learning objectives followed by “Terms to Remember.” These are followed by the traditional “Review and Discussion Questions,” which are also tied into the learning objectives of the chapter. These questions are meant to test recall and understanding of the chapter material and provide students with an opportunity to integrate and apply the text material. Another feature is the “Sample Test Questions” with multiple-choice questions that cover each chapter’s learning objectives. The answers to these questions are at the end of the book.

The second half of the study guide is designed as an “application of what’s been learned” section, which opens with the “Writing and Speaking Exercise.” This exercise attempts to aid the instructor in improving the students’ oral and written communication skills as well as their teamwork skills. Here the student or group of students is asked to make a one-page written report or oral presentation to the class incorporating the knowledge gained by reading the chapter. Some instructors may prefer to view these as “mini-cases.”

The “Retail Project” section has the student visiting either a library or a website or finding an answer to a current retail question. Next there is the “Planning Your Own Entrepreneurial Retail Business” section, which can also be viewed as another “mini-case.” These mini-cases thrust the student into the role of a budding retail entrepreneur. Many of these cases reinforce the importance of understanding the key profit drivers in retailing.

The next feature of each chapter’s study guide is the “Case” section. Most cases are drawn from actual retail situations and firms many students will recognize. The authors believe that the ability to understand the need for better management in retailing requires an explanation of retailing through the use of case studies. These cases cover the entire spectrum of retail operations and involve department stores, specialty shops, direct retailing, hardware stores, grocery stores, apparel shops, discount stores, and restaurants.

Supplementary Material

The Instructor’s Resource CD-ROM (IRCD) includes an overview of the chapter, several detailed teaching tips for presenting the material, a detailed outline, the answers to ques-

exercises, retail projects, cases, and planning your own entrepreneurial retail business. The IRCD also includes the following:

- The test bank contains more than 2,000 questions. These questions are true-false and multiple choice. The test bank is available in Word as well as ExamView—Computerized Testing Software. This software is provided free to instructors who adopt the text.
- PowerPoint slides include the chapter overview, key terms and definitions, charts, tables, and other visual aids by learning objectives.
- The Instructor’s Manual includes an overview, learning objectives, an outline, answers to the end-of-chapter material, and a “teaching in action” section. A DVD supplement offers a professionally written and produced video case package that provides intriguing, relevant, and current real-world insight into the modern marketplace. Each video is supported with application questions located on the website of Penn State University, Erie.

CourseMate

Cengage Learning’s Marketing CourseMate provides instructors with all of the reporting tools needed to track student engagement, while students can access interactive study tools in a dynamic, online learning environment.

CourseMate features include:

- **Engagement Tracker**, a Web-based reporting and tracking tool, allows you to monitor your students’ use of course material and assess their engagement and preparation.
- An **Interactive eBook** provides students with an interactive, online-only version of the printed textbook.
- **Interactive Teaching & Learning Tools** including quizzes, flashcards, videos, and more—all online with CourseMate.
- It’s **Affordable**—about half the cost of a traditional printed textbook.

In addition, CourseMate contains “The House,” which is a spreadsheet analysis of the financial performance of a clothing store in a small college town. As students read and work with the material in “The House”, instructors can answer the problems and, if necessary print out their answers. The software used is Microsoft Office, which integrates word processing (Word) and spreadsheet analysis (Excel). Instructors will be able to work the problems as they are.

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Patrick M. Dunne, who recently retired from the Rawls School of Business at Texas Tech University, received his PhD in marketing from Michigan State University and his BS from Xavier University.

In more than 40 years of university teaching, Dr. Dunne has taught a wide variety of marketing and distribution courses at both the undergraduate and graduate levels. His research has been published in many of the leading marketing and retailing journals. In addition, he has authored more than 20 books, many with Dr. Lusch. These books have been printed in seven languages. Dr. Dunne has also been honored with several university teaching awards.

Dr. Dunne has also taught at Michigan State University, Drake University, and the University of Oklahoma. In addition, he served as vice president of both the Publications and Association Developmental Divisions of the American Marketing Association. Professor Dunne also was an active consultant to a variety of retailers ranging from supermarkets to shopping malls.

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Robert F. Lusch received his PhD in business administration from the University of Wisconsin and his MBA and BS from the University of Arizona. He holds the Jim and Pamela Muzzy Chair in Entrepreneurship at the Eller School of Management, University of Arizona.

His expertise is in the area of retailing, entrepreneurship, marketing strategy, and distribution systems. Professor Lusch has served as the editor of the *Journal of Marketing*. He is the author of more than 150 academic and professional publications, including 18 books. The Academy of Marketing Science awarded him its Distinguished Marketing Educator Award, the American Marketing Association awarded him the IOSIG Lifetime Achievement Award, and the American Marketing Association has twice presented him the Harold Maynard Award.

Professor Lusch has served as president of the Southwestern Marketing Association, vice president of Education, and vice president–finance of the American Marketing Association, chairperson of the American Marketing Association, and trustee of the American Marketing Association. He has also actively consulted with many retail organizations and was instrumental in the development and guidance of three enterprises that became Inc. 500 firms.

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Dr. Carver's research interests include retailer pricing policies, supply-chain manage-

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Part 1

Introduction to Retailing

1 *Perspectives on Retailing*

2 *Retail Strategic Planning and Operations Management*



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1

Perspectives on Retailing

Overview

In this chapter, we acquaint you with the nature and scope of retailing. We present retailing as a major economic and social force in all countries around the world and as a significant area for career opportunities. Finally, we introduce the approach to be used throughout this text as you study and learn about the strategy and operating details that lead to successful retail enterprises.

Learning Objectives

After reading this chapter, you should be able to:

- 1 Explain what retailing is and why it is undergoing so much change today.
- 2 Describe the five methods used to categorize retailers.
- 3 Understand what is involved in a retail career and be able to list the prerequisites necessary for success in retailing.
- 4 Explain the different methods for the study and practice of retailing.

What Is Retailing, and Why Is It Undergoing So Much Change Today?

LO 1

Explain what retailing is and why it is undergoing so much change today.

It is easy to take for granted the impact retailing has on our economy and lifestyle. The full importance of this statement was recently pointed out to one of the authors when his niece, after working in New York City and Atlanta, made a career move to a town of 15,000 in the upper Midwest. While the town had a regular Walmart (not a Supercenter), she was now 41 miles from a Target and Walmart Supercenter and almost three hours from many of the retailers she had previously loved to shop like Macy's, Nordstrom, REI, Best Buy, and The Limited. While she now spent less time in stores, she was frustrated by the lack of fashionable clothing and eclectic merchandise that larger cities like Atlanta could offer. Most of all she missed one of her favorite pastimes—having lunch and window shopping with her girlfriends. To overcome the limited selection of her new town, she began shopping online more, but she still missed the in-store shopping experience. In the end, her overall retail merchandise spending declined, but she used these savings to travel more.

This situation illustrates the impact retailing has on the lifestyles of individual consumers, and by extension, the economic prosperity of any nation. History has shown that the nations that have benefited from the greatest economic and social progress have been

the people who have lived there for decades, you will hear their excitement about the

phenomenal increase in the quality and diversity of retailers they have recently witnessed. After all, it is retailing that is responsible for matching the individual demands of the consumer with vast quantities of supplies produced by a huge range of manufacturers and service providers.

Retailing's contribution to a nation's economic growth can be further highlighted with two examples. First, in 2006, the Nobel Peace Prize was given to Muhammad Yunus, a Bangladesh economist who received his Ph.D. in economics from Vanderbilt University, and the Grameen Bank, a microretail bank he founded decades earlier. The prize committee recognized the importance of financing the business aspirations of "millions of small people" with loans as little as \$20 to help some of the world's most impoverished people start businesses so that they could work to bring about their own development by establishing small retail outlets that helped build the retailing sector of the economy. Today, Grameen Bank is so successful that it has over 2,000 branch offices.

The second example can be found by looking at the impact of the world's largest retailer, Walmart, on the U.S. economy. One business writer suggested tongue in cheek that Walmart, which was founded in Arkansas less than 50 years ago, deserved the Nobel Peace Prize. Since the award is given to an individual and not an organization and since Sam Walton is deceased, the company will never be considered for such an award. Nonetheless, consider the retailer's many contributions to society, which include the following.²

- Walmart provides employment to more than 2.1 million people. The best defense against poverty is a job.
- The company pays over \$4 billion each year in dividends that help fund the retirement of millions of people.
- Walmart sells food, clothing, and other necessities at prices that are 15 to 25 percent below what conventional supermarkets charge. This helps millions of low-income families as well as other families stretch their dollars. In fact, the major tagline that you see displayed in Walmart's advertisements as well as on their trucks is "Save money. Live better."
- Walmart's low prices also help to push down the inflation rate and keep interest rates low. This is particularly beneficial for millions of families when making payments on their homes, household appliances, or autos. (In fact, one study concluded that Walmart has raised consumer discretionary income by almost 1 percent per year because of its low prices.³) Even Warren Buffett, the famous investor, noted that the retailer has "contributed more to the financial well-being of the American public than any other institution I can think of." His own back-of-the-envelope calculation of this contribution: \$10 billion a year.⁴
- Walmart is willing to locate stores in small markets, often as small as 5,000 people, and thus provide shopping alternatives for many people in these markets. In total, it has over 8,500 stores to serve customers.
- Walmart has developed an emergency-relief standard to get supplies to areas devastated by hurricanes, fires, and tornados that has resulted in better coordination between private companies and the Federal Emergency Management Agency (FEMA).⁵
- Walmart distributes more than \$600 million in cash and in-kind merchandise annually to 100,000 charitable organizations around the world.
- The company enhances the business of other nearby stores because the retailer increases the geographic area from which to attract customers.
- Walmart has been pursuing environmental sustainability from windmills to recycling.
- Walmart sells more organic produce than most of its competitors.

Still, not everyone likes and admires Walmart. For example, in *Fortune* magazine's annual poll of chief executive officers (CEOs), Walmart has gone from being the world's most admired company (in both 2003 and 2004) to 4th in 2005, 12th in 2006, 19th in 2007, and off the Top 20 list entirely in 2008.⁷ However, most retail analysts attribute this drop-off to growing criticism of its nonunion policy by two labor union-funded groups (Walmart Watch and Wake-Up Walmart),⁸ the settlement of 63 lawsuits about shortchanging employees on overtime wages,⁹ and a slumping stock price since 2000. Further, many retail analysts believed that Walmart's attempt to go more upscale and try to match Target and JCPenney in terms of fashionable merchandise may have resulted in its core customer being abandoned.

However, the northwest Arkansas retailer has since returned to its core retail strategies and worked closely with activists to improve its labor, health care, and environmental practices.¹⁰ In fact, during the spring of 2011, a promotional campaign, "It's Back," was launched to inform its traditional core customer that it was bringing back core merchandise that had been removed in an attempt to be a bit more upscale. As a result of these proactive strategic realignments and the resulting increase in popularity with consumers and investors, the company was ranked 11th in 2009¹¹, 9th in 2010, and 11th in 2011. In 2012, the ranking dropped to 24th; however, perhaps the more relevant ranking is how Walmart is only a few spots behind Nordstrom at 21 and ahead of Target, Kohl's, and Macy's.¹²

Another criticism of Walmart is the popular belief that Walmart has a significant negative effect on the mom-and-pop business sector. Academic research, however, has found that such beliefs are statistically unfounded. The research concluded that "after examining a plethora of different measures of small business activity and growth ... it can be firmly concluded that [Walmart] has had no significant impact on the overall size and growth of U.S. small business activity."¹³ Thus, while Walmart may cause some poorly managed mom-and-pop businesses in outlying towns to fail, those failures actually pave the way for the entry of other new small businesses that increase overall consumer satisfaction and productivity.

Yet aside from these two examples illustrating how retailing contributes to a nation's economic growth and stability, what about those countries without an efficient and effective retailing system? History has clearly shown that nations that have failed to develop a productive and customer-centric retailing system will ultimately have to devise one in order to improve their populations' well-being. One reason Eastern European countries experienced such low rates of economic growth when they were under Communist control was their lack of a vibrant retail structure. Consumers were forced to shop in stores that offered outdated merchandise and were barely the size of a large living room. Interestingly, when American and Western European retailers opened for business in these countries, they became instant successes. The joy and excitement these new forms of retailing provided the citizens was amazing and illustrated the value people of all cultures place on a retailing system that is responsive to their needs and wants. Even Albania, a nation of 3 million and one of Europe's most depressed countries due to its long-standing communist rule, had its first modern mall open in 2009. This 150-store center, which includes a hypermarket, is located between Tirana and Durrës. The mall has generated great excitement as consumers, especially young people, can now save time and do all their shopping at one place.¹⁴ Therefore, the rest of this text will be dedicated to showing how a retail system works and how it can always be improved.

Retailing, as we use the term in this text, consists of the final activities and steps to the consumer. In fact, retailing is actually the last step in a supply chain that may

retailing

Consists of the final activities and steps needed to place merchandise made elsewhere into the hands of the consumer or to provide services to the consumer.

stretch from Europe or Asia to your hometown. Therefore, any firm that sells a product or provides a service to the final consumer is performing the act of retailing. Regardless of whether the firm sells to the consumer in a store, through the mail, over the telephone, through the Internet, door-to-door, with a push cart on the street, or through a vending machine, the firm is involved in retailing. And it doesn't matter what is being sold—Chipotle fresh Mexican food, Wells-Fargo branch banks, Firestone tire outlets, Holiday Inn Express motels, Lens Crafters eyeglass stores, Thread-less t-shirts sold mostly online, e-Bay or Amazon selling a wide assortment of goods, local pawn shops or house cleaning service firms or the local zoo or art museum—all are a form of retailing.

The Nature of Change in Retailing

Many observers of the business scene believe that retailing is the most “staid and stable” sector of business. While this observation may have been true in the past, quite the contrary is occurring today. Retailing includes every living individual as a customer and accounts for 20 percent of the worldwide labor force, and consumer spending represents nearly a third of America's total economy. As the largest single industry in most nations, retailing, or spending by consumers, is necessary for businesses to “grow and hire again.” Therefore, anything that affects whether or how consumers choose to spend money affects the retailing industry.

Consider that when households are financially stressed due to job loss or other factors, it shows up in their retail purchases. Instead of \$3 lattes every day, purchasing a new car, or even installing new windows in the home, many families will only have a latte on the weekend or eliminate them all together while simultaneously cutting electricity usage in the home and postponing durable purchases like windows so as to have more money to spend on food and other necessities. Retailers must be vigilant in identifying and understanding any factors that might affect families' spending priorities if they are to remain successful. Take Subway's \$5 foot-long sub; during the 2008–2009 economic recession, Subway recognized that people were eating out less for fast food and borrowed an idea from one its franchisees in Florida. The retailer believed the \$5 price would be an eye catcher, as families pondered whether to eat out on any given evening, and the strategy seems to have paid off as it credits a 17 percent rise in sales during 2008 to the \$5 sub.¹⁵

The opposite occurs when households begin to experience improvements in their financial condition. In 2010, as the U.S. economy began to rebound, many retailers experienced healthy gains in sales; yet, the expected gains were from a less-anticipated source. During that year, men planned to spend 3 percent more than they had in 2009, whereas women planned to spend 1 percent less!¹⁶ Therefore, it wasn't surprising when the December 2010 and 2011 holiday season concluded and sales of iPads, Kindle Fires, and other tablet computing devices, priced from \$200 to \$700, were very strong.

Today, retailing is undergoing many exciting changes, only a few of which will be covered in this chapter. Every retailer must consider how a change in any facet of the external environment could impact its current and future retail plans, as well as the entire retail sector within which it competes. To that end, every chapter will include several boxes intended to illustrate how successful retailers are trying to stay ahead of the changing environment. For example, each chapter of this text has a “Retailing: The Inside Story” box explaining the rationale or method behind one retailer's attempt to

nizing that technological change is also an area that will continue to alter future retail



William Ju/Alamy Limited

Retailing in China is undergoing rapid change as household incomes rise and Chinese consumers have more discretionary income.

activity, each chapter includes a “What’s New?” box, which focuses exclusively on how technology, particularly the Internet, affects retailing.

E-Tailing

Interestingly, embedded in the word *retail* is one of the most important trends in the retail industry, and that is e-tailing—just remove the “r” from retailing and you have e-tailing.

The great unknown for retail managers is what the ultimate role of the Internet will be. Contrary to the fears of many retailers a decade ago, the Internet hasn’t destroyed **bricks-and-mortar retailers** (or retailers that operate out of a physical and geographic based building or store). The most recent statistics find that the Internet accounts for approximately 4.2 percent of total retail sales.¹⁷ However, if the sales of categories not commonly bought online—automobiles, fuel, and food services—are excluded, sales over the Internet account for about 10 percent of all retail sales.¹⁸

It’s truly astounding how in about two decades time the Internet has come to represent approximately \$36 billion of total U.S. retail spending.¹⁹ But focusing solely on online sales diminishes or overlooks where the Internet’s truly making an impact on retailing: consumer expectations and behavior. Today, customers, especially the younger ones, are accustomed not only to the speed and convenience of purchasing online but also to the control it gives them. E-tailing, after all, enables consumers to shop when they like and from where they like. In addition, it provides access to vast amounts of information, ranging from a product’s attributes to who has the lowest price. No real-world store can match that.

m-tailing or m-commerce. This is where shoppers use their smartphones to purchase

bricks-and-mortar retailers

Retailers that operate out of a physical building.

WHAT'S NEW



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Do You Have a Room for Rent? How About Just a Bathroom?

As we are in the early stages of exposing you to the study and performance of retailing and retail management, it is perhaps easiest to illustrate how the Internet and technology continue to push forward and blur the boundaries of retailing by asking a simple question. *What would you do, or what would you buy, if you could cut your rent in half this month?*

Would you go buy a new pair of heels? How about on a trip?

It's quite possible that a question like the one just posed, or some derivation thereof, is the reason hundreds of thousands of individuals chose to rent out their spare bedrooms, their apartment, or home for a night or weekend over 4 million times during 2011 with the assistance of Air Bed & Breakfast (www.airbnb.com). It's also quite possible that many of these renters or "hosts" neglected to realize that in renting out their home, they're performing the act of retailing; it might be beneficial at this time to review our definition of retailing. Yet while many of these hosts may overlook the power of retailing to affect their lives, the founders of AirBnb.com surely didn't.

In 2007, two roommates, Joe Gebbia and Brian Chesky, recognized that a prominent design conference was coming to their hometown of San Francisco only to have all the nearby hotel rooms already sold out. Looking around their apartment, Joe and Brian decided to offer up their place to a few conference attendees believing that they could provide a better San Francisco experience than any local hotel. Not only would Joe and Brian not charge their guests \$5 or more for a Coca-Cola or Snickers bar, but guests would stay with hosts who could provide a more genuine or authentic

experience. A "true" San Francisco experience they believed required dining at local favorite restaurants, shopping in less touristy areas, frequenting nightly attractions unknown to outsiders. A Hilton or Holiday Inn, they felt, couldn't provide such experiences; only a "local," interested in doing so, could.

With an idea of how to enhance one's travelling experience on one hand and a couple of air mattresses on the other, Joe and Brian began AirBnB.com. AirBnB.com, they believed, would become a destination for travelers seeking authenticity and community while simultaneously providing hosts with income. They appear to have been right, at least for those Generation X and Y consumers that see tourist spots as "campy." In five years, the company based on providing new retail outlets to travelers has expanded from an operation in two guys' living room to a \$1.3 billion enterprise.

The real question the authors still have after all AirBnB.com's success is: Will renting out one's bathroom also be a huge success? Those at Community-Loo (www.Cloo-app.com) surely think so, and they've already developed a mobile app for those seeking to rent time in someone's personal bathroom rather than enter a public facility.

Just think, you could enter the wild world of retail by renting out your bathroom later today!

Sources: AirBnB.com Company Website (2012) "Airbnb Began by Solving a Problem," [online] Available at: www.airbnb.com/home/story [Accessed: January 28, 2012]; Alpert, Lukas (2011) "CLOO App Helps People Who Need to Use a Bathroom Find Strangers Willing to Open Up Their Homes," [online] Available at: www.articles.nydailynews.com [Accessed: January 28, 2012]; Greenfield, Rebecca (2012) "Airbnb Got Over Its Reputation for Meth and Property Damage," [online] Available at: www.theatlanticwire.com [Accessed: January 28, 2012]; Heussner, Ki Mae (2011) "Case Study: Inside AirBnB's Growth," [online] Available at: www.adweek.com [Accessed: January 28, 2012]; Levy, Ari and Douglas MacMillan (2011) "Airbnb Venture Funding Said to Value Travel-Rental Startup at \$1.3 Billion," [online] Available at: www.bloomberg.com [Accessed: January 29, 2012]; "For Turning Spare Rooms Into the World's Hottest Hotel Chain," *Fast Company* (March 2012): 106-108, 148.

not only traditional merchandise and services, but also virtual service providers, which are commonly referred to as *apps*. Apps are digital services that can be downloaded to one's phone or tablet. Services provided range from those designed to enable the playing of an electronic game, to viewing a magazine such as *Time* or *Newsweek*, locating a

between a half million and a million times a week.

M-tailing, which is only a small fraction of e-tailing—less than 2 percent—is projected by the authors to be over 25 percent of e-tailing by 2020. The trend toward m-tailing is particularly good for retailers that sell mobile phones such as Radio Shack, Verizon, AT&T, and Sprint. Best Buy is capitalizing on this trend by opening mobile stores that are considerably smaller than their larger format stores that offer more product breadth.

With the growth of Web 2.0, the Internet has become much more interactive and social in nature. This has important implications for retailers. For instance, in 2007, Macy's did not spend any money on digital advertising and social media; in 2010, it spent \$120 million.²¹ Also, many retailers have been surprised that the extent to which they can control their communications through their sponsorship of advertising is dwindling. For instance, with some Internet websites, such as Groupon and Meetup, individuals can band together for group buying; the group is then able to negotiate with a retailer or manufacturer for a large transaction size represented by dozens or even hundreds of potential customers. Also, many e-tailers offer personalized help online. For instance, K-Swiss allows visitors to its website to chat with a customer service representative seven days a week, 24 hours a day. Some forward thinking and innovative retail CEO's are even using Twitter to become part of the dialogue and conversation with customers, suppliers, and other stakeholders. This includes Tony Hsieh, who is the CEO of Zappos, a highly successful e-tailer that sells shoes. If you are planning to interview for a job in retailing, you should see if their CEO or other senior management are tweeting and begin to follow them and learn more about the retail enterprise and its culture.

To combat e-tailing, bricks-and-mortar retailers must give their customers more control over the shopping experience, even if it means bringing web-style technology into the store in an attempt to replicate the best things about online shopping, but in a more personal way. Retailers should not fight this trend because the customer is already bringing the web into the store. For instance, young shoppers with smartphones send photos of a potential purchase to their friends and then friends text message back, which allows the young shopper to get input on the potential purchase. These savvy shoppers also use their phones to scan Universal Product Code (UPC) bars to immediately see if the price is competitive with other retailers in the area or online. Consequently, the retailer needs to get on and grow with the web technology trend. In-store kiosks, for example, are particularly useful to show the final product before a special, customized order is placed. They allow a shopper to see the finished product before purchasing and provide an online experience in the store. Other retailers have set up their own websites, while others have begun to use nontraditional methods to reach out to the consumer.

However, the most important thing for bricks-and-mortar retailers to grasp is the shift in power between retailers and consumers. Traditionally, the retailers' control over pricing information provided them with the upper hand in most transactions. Today, the information dissemination capabilities of the Internet have made consumers better informed. This has increased their power when transacting and negotiating with retailers. The web has provided consumers with detailed pricing information about products ranging from bikes to office supplies to digital televisions, thus enabling them to negotiate better deals. Some bricks-and-mortar retailers may have to discontinue some product categories as consumers engage in an activity called **channel surfing**. Channel surfing occurs when the customer gets needed information (such as proper size or how to assemble a product) in the stores and then orders it online for a lower price and to avoid paying state sales tax.

Retailers must keep experimenting with various strategies, both in-store and online, what they demand from their retailers. That is why stores like JCPenney, Target Corp.,

channel surfing

when the customer gets needed product information within a store and then chooses to order the product online for a lower price or to avoid paying state sales tax.

Best Buy, and Amazon.com, Inc. are pushing new mobile programs. They hope these efforts make it easier for customers to shop online with their smartphones. Even if the prices touted digitally are basically the same as those offered in the store, retailers say customers can get news of sales earlier than with other methods, such as commercials or circulars. After all, failure to keep up with the Internet will spell failure for the retailer.

Price Competition

Some people claim that America's fixation with low prices began after World War II when fair-trade laws, which allowed the manufacturer to set a price that no retailer was allowed to sell below, were abolished, paving the way for America's first discounter, E. J. Korvette. Actually, this revolution more than likely began with the birth of Walmart in Rogers, Arkansas, in 1962. At the time, there were 41 publicly held discount stores and another two dozen privately owned chains already in business.²² What Sam Walton did that forever changed the face of retailing was to realize, before everybody else, that most of any product's cost gets added after the item is produced. As a result, Walton began enlisting suppliers to help him reduce these costs and increase the efficiency of the product's movement from production to placement on store shelves. Also, Walton, who had never operated a computer in his life, made a major commitment to computerizing Walmart as a means to reduce these expenses. As a result of the introduction of the computer to retail management, Walmart's selling, general, and administrative costs as a percentage of sales reached a low of only 16 percent by the early 1990s. Since that time they have risen to 19 percent, and this has been due to global expansion efforts, higher corporate overhead, and a variety of other factors. Importantly, both in the 1990s and today, all of its competitors' operating expenses are 3 percent to 5 percent higher, which continues to put Walmart at a relative competitive advantage. Simply put, Walmart became the world's largest retailer by relentlessly cutting unnecessary costs, improving operating efficiency, and demanding that its suppliers do the same. A popular measure of *operating efficiency* is operating costs as a percentage of sales. This cost and efficiency focus continues, and recently Walmart has suggested that its suppliers focus on their core competency, which is manufacturing products, and that Walmart provide the transportation service from manufacturing plants to Walmart distribution centers in situations when the retailer can do it more efficiently.²³ Those who claim that Walmart is obsessed with its bottom line (profits) miss the point: Walmart is obsessed with its top line (sales), which it grows by focusing on the consumer's bottom line.

Costco, ranked in 2012 by *Fortune* magazine as the 20th most respected business in the world,²⁴ is another retailer that seeks to boost store traffic by getting shoppers to come in for a "super, low price" on key products. Consider gasoline. The chain uses gas as a *loss leader* (selling a product near, at or below its cost) to generate traffic and increase its inside-of-the store sales. The success of this strategy is shown by the fact that during the 2008–2009 recession, almost a third of the U.S. population used an alternative gasoline retailer, such as warehouse clubs and supercenters, to get gas. This was up 50 percent from three years earlier.²⁵ In addition, Costco's 29 million member households need a membership card, which costs \$50 to \$100 a year and goes straight to the firm's bottom line (net profit on an income statement).²⁶

In Exhibit 1.1, you will see how discount or low-price retailing allows retailers to improve their operating efficiency and thus enables them to continue to lower prices. This occurs because when operating a store, many costs are fixed, such as rent and occupancy. Thus, as sales rise, the rent and occupancy costs as a percentage

this relationship.