Principles of Marketing - Part 9: Retailing

In an ideal business world, most marketers would prefer to handle all their distribution activities by way of the corporate channel arrangement we discussed in Part 8: Distribution Decisions. Such an arrangement provides the marketer with two important benefits. First, being responsible for all distribution means the marketing organization need only worry about making decisions concerning their product. When others, such as resellers, are involved in distribution attention is not given to a single supplier but is stretched across all products the reseller carries. Second, having control on all distribution means the marketer is always in direct contact with buyers of their products, which can make it easier to build strong, long-term relationships with customers.

Unfortunately, as we saw in the last tutorial, for many marketing organizations a corporate channel arrangement is not feasible. Whether due to high cost or lack of experience needed to run a channel efficiently, the majority of marketing organizations rely on third parties to get their products into the hands of customers.

In our next two tutorials we examine the key parties through which marketers seek distribution assistance. Choosing which parties to aid in product distribution is important since a distributor's actions can affect how customers view the marketer and the products they offer. As we discussed in Part 5: Target Markets, a customer's perception of a product affects how they mentally position the product in relation to competitive products. How a product is distributed, including where it is located (e.g., reputation of resellers from whom they purchase) and customer experience with the purchasing process (e.g., how long to receive, condition when received), will impact a customer's feelings about the product which in turn affects how a customer positions the product in their mind.

In Part 9 we examine retailers as resellers of a marketer's products. In terms of sales volume and number of employees, retailing is one of the largest sectors of most economies. We will see that retailing is quite diverse and marketers, who want distribute through retailers, must be familiar with the differences that exist among different retail options.

This tutorial includes the following topics:

What is Retailing?
Retailing is defined as selling products to consumers for their personal use. A retailer is a reseller (i.e., obtains product from one party in order to sell to another) from which a consumer purchases products. In the US alone there are over 1,100,000 retailers according to the 2002 US Census of Retail Trade.

In the majority of retail situations, the organization from which a consumer makes purchases is a reseller of products obtained from others and not the product manufacturer. But as we discussed in Part 8: Distribution Decisions, some manufacturers also operate their own retail outlets in a corporate channel arrangement. While consumers are the retailer's buyers, a consumer does not always buy from retailers. For instance, in a direct marketing system, where a consumer purchases from another consumer (e.g., eBay) the consumer purchase would not be classified as a retail purchase. This distinction can get confusing but in the US and other countries the dividing line is whether the one selling to consumers is classified as a business (e.g., legal and tax purposes) or is selling as a hobby without a legal business standing.

As a reseller, retailers offer many benefits to suppliers and customers as we discussed in Part 8. For consumers the most important benefits relate to the ability to purchase small quantities of a wide assortment of products at prices that are considered reasonably affordable. For suppliers the most important benefits relate to offering opportunities to reach their target market, build product demand through retail promotions, and provide consumer feedback to the product marketer.

Concerns of Retailers
Retailers are faced with many issues as they attempt to be successful. The key issues include:

- Customer Satisfaction – Retailers know that satisfied customers are loyal customers. Consequently, retailers must develop strategies intended to build relationships that result in customers returning to make more purchases.
- Ability to Acquire the Right Products – A customer will only be satisfied if they can purchase the right products to satisfy their needs. Since a large percentage of retailers do not manufacture their own products, they must seek suppliers who will supply products demanded by customers. Thus, an important objective for retailers is to identify the products customers will demand and negotiate with suppliers to obtain these products.
- Product Presentation – Once obtained products must be presented or merchandised to customers in a way that generates interest. Retail merchandising often requires hiring creative people who understand and can relate to the market.
- Traffic Building – Like any marketer, retailers must use promotional methods to build customer interest. For retailers a key measure of interest is the number of people visiting a retail location or website. Building "traffic" is accomplished with a variety of promotional techniques such as advertising, including local newspapers or Internet, and specialized promotional activities, such as coupons.
- Layout– For store-based retailers a store's physical layout is an important component in creating a retail experience that will attract customers. The physical layout is more than just deciding in what part of the store to locate products. For many retailers designing the right shopping atmosphere (e.g., objects, light, sound) can add to the appeal of a store. Layout is also important in the online world where site navigation and usability may be deciding factors in whether of a retail website is successful.
- Location – Where to physically locate a retail store may help or hinder store traffic. Well placed stores with high visibility and easy access, while possibly commanding higher land usage fees, may hold significantly more value than lower cost sites that yield less traffic. Understanding the trade-off between costs and benefits of locations is an important retail decision.
- Keeping Pace With Technology – Technology has invaded all areas of retailing including customer knowledge (e.g., customer relationship management software), product movement (e.g., use of RFID tags for tracking), point-of-purchase (e.g., scanners, kiosks, self-serve checkout), web technologies (e.g., online shopping carts, purchase recommendations) and many more.

Ways to Categorize Retailers

There are many ways retailers can be categorized depending on the characteristics being evaluated. For our purposes we will separate retailers based on six factors directly related to major marketing decisions:

- target markets served
- product offerings
- pricing structure
- promotional emphasis
- distribution method
- service level

and one operational factor:

- ownership

However, these groups are not meant to be mutually exclusive. In fact, as we will see in some way all retailers can placed into each category.

Target Markets Served
The first classification looks at the type of markets a retailer intends to target. These categories are identical to the classification scheme we saw in Part 8 when we discussed the levels of distribution coverage.

- Mass Market – Mass market retailers appeal to the largest market possible by selling products of interest to nearly all consumers. With such a large market from which to draw customers, the competition among these retailers is often fierce.
- Specialty Market – Retailers categorized as servicing the specialty market are likely to target buyers looking for products having certain features that go beyond mass marketed products, such as customers who require more advanced product options or higher level of customer service. While not as large as the mass market, the target market serviced by specialty retailers can be sizable.
- Exclusive Market – Appealing to this market means appealing to discriminating customers who are often willing to pay a premium for features found in very few products and for highly personalized services. Since this target market is small, the number of retailers addressing this market within a given geographic area may also be small.

Products Carried

Under this classification retailers are divided based on the width (i.e., number of different product lines) and depth (i.e., number of different products within a product line) of the products they carry.

- General Merchandisers – These retailers carry a wide range of product categories though the number of different items within a particular product line is generally limited (i.e., shallow depth).
- Multiple Lines Specialty Merchandisers - Retailers classified in this category stock a limited number of product lines (i.e., narrow) but within the categories they handle they often offer a greater selection (i.e., deep) than are offered by general merchandisers. For example, a consumer electronics retailer would fall into this category.
- Single Line Specialty Merchandisers – Some retailers limit their offerings to just one product line, and sometimes only one product. This can be seen online where a relatively small website may sell a single product such as computer gaming software. Another example may be a small jewelry store that only handles watches.

Pricing Strategy

Retailers can be classified based on their general pricing strategy. Retailers must decide whether their approach is to use price as a competitive advantage or to seek competitive advantage in non-price ways.

- Discount Pricing – Discount retailers are best known for selling low priced products that have a low profit margin (i.e., price minus cost). To make profits these retailers look to sell in high volume. Typically discount retailers operate with low overhead costs by vigorously controlling operational spending on such things as real estate, design issues (e.g., store layout, website presentation), and by offering fewer services to their customers.
- Competitive Pricing – The objective of some retailers is not to compete on price but alternatively not to be seen as charging the highest price. These retailers, who often operate in specialty markets, aggressively monitor the market to insure their pricing is competitive but they do not desire to get into price wars with discount retailers. Thus, other elements of the marketing mix (e.g., higher quality products, nicer store setting) are used to create higher value for which the customer will pay more.
- Full Price Pricing – Retailers targeting exclusive markets find such markets are far less price sensitive than mass or specialty markets. In these cases the additional value added through increased operational spending (e.g., expensive locations, more attractive design, more services) justify higher retail prices. While these retailers are likely to sell in lower volume than discount or competitive pricing retailers, the profit margins for each product are much higher.

Promotional Focus

Retailers generate customer interest using a variety of promotional technique, yet some retailers rely on certain methods more than others as their principle promotional approach.

- Advertising – Many retailers find traditional mass promotional methods of advertising, such as through newspapers or television, continue to be their best means for creating customer interest. Retailers selling online rely mostly on Internet advertising as their promotional method of choice.
- Direct Mail – A particular form of advertising that many retailers use for the bulk of their promotion is direct mail – advertising through postal mail. Using direct mail for promotion is the primary way catalog retailers distribute their materials and is often utilized by smaller local companies who promote using postcard mailings.
- Personal Selling – Retailers selling expensive or high-end products find a considerable amount of their promotional effort is spent in person-to-person contact with customers. While many of these retailers use other promotional methods, in particular advertising, the consumer-salesperson relationship is key to persuading consumers to make purchase decisions.

Retailers sell in many different formats with some requiring consumers visit a physical location while others sell to customers in a virtual space. It should be noted that many retailers are not tied to a single distribution method but operate using multiple methods.

- Store-Based Sellers – By far the predominant method consumers use to obtain products is to acquire these by physically visiting retail outlets (aka brick-and-mortar). Store outlets can be further divided into several categories. One key characteristic that distinguishes categories is whether retail outlets are physically connected to one or more others stores:
    - o Stand-Alone – These are retail outlets that do not have other retail outlets connected.
    - o Strip-Shopping Center – A retail arrangement with two or more outlets physically connected or that share physical resources (e.g., share parking lot).
    - o Shopping Area – A local center of retail operations containing many retail outlets that may or may not be physically connected but are in close proximity to each other such as a city shopping district.
    - o Regional Shopping Mall – Consists of a large self-contained shopping area with many connected outlets.
- Non-Store Sellers – A fast growing method used by retailers to sell products is through methods that do not have customers physically visiting a retail outlet. In fact, in many cases customers make their purchase from within their own homes.
    - o Online Sellers – The fastest growing retail distribution method allows consumer to purchase products via the Internet. In most cases delivery is then handled by a third-party shipping service.
    - o Direct Marketers – Retailers that are principally selling via direct methods may have a primary location that receives orders but does not host shopping visits. Rather, orders are received via mail or phone.
    - o Vending – While purchasing through vending machines does require the consumer to physically visit a location, this type of retailing is considered as non-store retailing as the vending operations are not located at the vending company's place of business.

Retailers attract customers not only with desirable products and affordable prices, but also by offering services that enhance the purchase experience. There are at least three levels of retail service:

- Self-Service – This service level allows consumers to perform most or all of the services associated with retail purchasing. For some consumers self-service is considered a benefit while others may view it as an inconvenience. Self-service can be seen with: 1) self-selection services, such as online purchasing and vending machine purchases, and 2) self-checkout services where the consumer may get help selecting the product but they use self-checkout stations to process the purchase including scanning and payment.
- Assorted-Service – The majority of retailers offer some level of service to consumers. Service includes handling the point-of-purchase transaction; product selection assistance; arrange payment plans; offer delivery; and many more.

- Full-Service – The full-service retailer attempts to handle nearly all aspects of the purchase to the point where all the consumer does is select the item they wish to purchase. Retailers that follow a full-price strategy often follow the full-service approach as a way of adding value to a customer's purchase.

Ownership Structure

Finally, we can categorize retailers based on the ownership structure of the business.

- Individually Owned and Operated – Under this ownership structure an individual or corporate entity owns and operates one or a very small number of outlets. Single ownership of retail outlets most frequently occurs with small retail stores, though there are some cases, for instance in the automotive or furniture industries, where single ownership involves very large outlets.
- Corporate Chain – A retail chain consists of multiple retail outlets owned and operated by a single entity all performing similar retail activities. While the number of retail outlets required to be classified as chain has never been specified, we will assume that anyone owning more than five retail locations would be considered a chain.
- Corporate Structure – This classification covers large retailers predominantly operating in the non-store retail arena such as online, catalog and vending.
- Contractually Licensed and Individually Operated – The contractual channel arrangement discussed in Part 8 has lead to a retail ownership structure in which operators of the retail outlet are not the out-right owners of the business. Instead, the arrangement often involves a legal agreement in which the owner of the retail concept allows the operator to run the owner's business concept in exchange for financial considerations such as a percentage of revenue. This structure is most often seen in retail franchising.

Retail Formats: Part 1

Now that we have presented ways in which retailers can be classified, we now use these categories to distinguish general formats or business models that best describes a retail operation. These categories are designed to identify the primary format a retailer follows. In some cases, particular with the advent of the Internet, a retailer will be involved in more than one formats.

- Mom-and-Pop – Represent the small, individually owned and operated retail outlet. In many cases these are family-run businesses catering to the local community.
- Mass Discounters - These retailers can be either general or specialty merchandisers but either way their main focus is on offering discount pricing. Compared to department stores, mass discounters offer fewer services and lower quality products.
- Warehouse Stores – This is a form of mass discounter that often provides even lower prices than traditional mass discounters. In addition, they often require buyers to make purchases in quantities that are greater than what can be purchased at mass discount stores. These retail outlets provide few services and

product selection can be limited. Furthermore, the retail design and layout is as the name suggests, warehouse style, with consumers often selecting products off the ground from the shipping package. Some forms of warehouse stores, called warehouse clubs, require customers purchase memberships in order to gain access to the outlet.

- Category Killers – Many major retail chains have taken what were previously narrowly focused, small specialty store concepts and have expanded them to create large specialty stores. These so-called "category killers" have been found in such specialty areas as electronic (e.g., Best Buy), office supplies (e.g., Staples) and sporting goods (e.g., Sport Authority).
- Department Stores – These retailers are general merchandisers offering mid-to-high quality products and strong level of services, though in most cases these retailers would not fall into the full-service category. While department stores are classified as general merchandisers some carry a more selective product line. For instance, while Sears carries a wide range of products from hardware to cosmetics, Nordstroms focuses their products on clothing and personal care products.
- Boutique – This retail format is best represented by a small store carrying very specialized and often high-end merchandise. In many cases a boutique is a full-service retailer following a full-pricing strategy.

Retail Formats: Part 2

- Catalog Retailers – Retailers such as Lands' End and LL Bean have built their business by having customers place orders after seeing products that appear in a mailed catalog. Orders are then delivered by a third-party shipper.
- e-tailers - Possibly the most publicized retail model to evolve in the last 50 years is the retailer that principally sells via the Internet. There are thousands of online-only retail sellers of which Amazon.com is the most famous. These retailers offer shopping convenience including being open for business all day, every day. Electronic retailers or e-tailers also have the ability to offer a wide selection of product since all they really need in order to attract orders is a picture and description of the product. That is, they may not need to have the product on-hand the way physical stores do. Instead an e-tailer can wait until an order is received from their customers before placing their own order with their suppliers. This cuts down significantly on the cost of maintaining products in-stock.
- Franchise – As noted in Part 8, a franchise is a form of contractual channel in which one party, the franchisor, controls the business activities of another party, the franchisee. Under these arrangements, an eligible franchisee agrees to pay for the right to use the franchisor's business methods and other important business aspects, such as the franchise name. For instance, McDonalds is a well-known franchisor that allows individuals to use the McDonalds name and methods to deliver food to consumers. Payment is usually in the form of a one-time, upfront franchise fee and also on-going percentage of revenue. While the cost to the franchisee may be quite high, this form of retailing offers several advantages including: 1) allowing the franchisee to open a retail outlet that may already be known to local customers, and 2) being trained in how to operate the business,

which may allow the franchisee to be successful much faster than if they attempted to start a business on their own. For the franchisor, in addition to added revenue, the franchise model allows for faster expansion since funds needed to expand the business (e.g., acquiring retail space, local advertising) are often supported by the franchisee's up-front franchise fee.

- Convenience – As the name implies these general merchandise retailers cater to offering customers an easy purchase experience. Convenience is offered in many ways including through easily accessible store locations, small store size that allows for quick shopping, and fast checkout. The product selection offered by these retailers is very limited and pricing can be high.
- Vending – Within this category are automated methods for allowing consumers to make purchases and quickly acquire products. While most consumers are well aware of vending machines allowing customers to purchase smaller items, such as beverages and snack food, newer devices are entering the market containing more expensive and bulkier products. These systems require the vending machine have either Internet or telecommunications access to permit purchase using credit cards.

Retail Summary Chart

Below we summarize each retail format by using the seven categorization characteristics. The characteristics identified for each format should be viewed as the "most likely" case for that format and are not necessarily representative of all retailers that fall into this format. For example, under distribution, clearly most retailers today have an online presence, however, for many the predominant distribution methods is still selling through retail stores.

Format	Target Market	Products Carried	Pricing Strategy	Promotion Emphasis	Distribution	Service Level	Ownership Structure
Mom-and-Pop	mass specialty	general specialty	competitive	advertising direct mail	stand-alone strip center shopping area	assorted	individually o/o
Mass Discounter	mass	general	discount	advertising	stand-alone strip-center	self	corp. chain
Warehouse Store	mass	general	discount	advertising	stand-alone	self	corp. chain
Category Killler	mass	specialty	discount competitive	advertising	stand-alone strip center	assorted	corp. chain
Department Store	specialty	general	competitve	advertising	shopping area shopping mall	assorted	corp. chain
Boutique	speciatly exclusive	specialty	full	selling	stand-alone strip center shopping area	full	individuallly o/o chain
Catalog	mass specialty	general specialty	discount competitive	direct mail	direct marketer	assorted	corp. structure
e-tailer	mass specialty	general specialty	discount competitive full	advertising	online seller	self	corp. structure
Franchise	mass	specialty	competitive	advertising	stand-along strip center	assorted	contractual

Convenience	mass	general	full	advertising	stand-alone	self	individually o/o corp. chain
Vending	mass	specialty	full	none	vending	self	corp. structure