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Managing Marketing Channels and Supply Chains

LEARNING OBJECTIVES

After reading this chapter you should be able to:

LO 15-1 Explain what is meant by a marketing channel of distribution and why intermediaries are needed.

LO 15-2 Distinguish among traditional marketing channels, electronic marketing channels, and different types of vertical marketing systems.

LO 15-3 Describe factors that marketing executives consider when selecting and managing a marketing channel, including legal restrictions.

LO 15-4 Explain what supply chain and logistics management are and how they relate to marketing strategy.

Callaway Golf: Designing and Delivering the Goods for Great Golf

What do Morgan Pressel and Phil Mickelson, two world-class golf professionals, have in common? Both use Callaway Golf equipment, accessories, and apparel when playing their favorite sport.

With annual sales approaching $900 million, Callaway Golf is one of the most recognized and highly regarded companies in the golf industry. With its commitment to continuous product innovation and broad distribution in the United States and more than 100 countries worldwide, Callaway Golf has built a strong reputation for designing and delivering the goods for golfers of all skill levels, both amateur and professional.

Callaway Golf primarily markets its products through more than 15,000 on- and off-course authorized golf retailers and sporting goods retailers, such as Golf Galaxy, Inc., Dick’s Sporting Goods, Inc., and PGA Tour Superstores, which sell quality golf products and provide a level of customer service appropriate for the sale of such products. Callaway Golf considers its retailers a valuable marketing asset.

The company also has its own online store (CallawayGolf.com), which makes it a full-fledged multichannel marketer, and a successful one as well. Soon after CallawayGolf.com was launched, the chief executive of PGA of America called the store “innovative in that it combines that old legacy relationship with the retail channel with the new innovation of the Web.” According to a Marketing Group spokesperson, “Callaway produces in-house a wide-ranging, high volume of original content from instructional videos to interviews with R&D leads and Tour Pros, blog posts and even live streams of Callaway events. This commitment to creating original content helps to give consumers a better feel for the Company and its products when they go to purchase equipment online and at retail.”

Today, CallawayGolf.com is a dynamic, engaging and interactive website that constantly delivers new in-depth product information and media, original social content, user-generated content, and e-commerce capabilities. All of this helps consumers become better informed during the purchasing process. Not surprisingly, CallawayGolf.com is listed among the top Internet retailers in the United States.

2014 Callaway Golf Company

Providing Callaway’s authorized golf retailers and sporting goods retailers with the right products, at the right place, at the right time, and in the right Page 407quantity and condition is the responsibility of the company’s supply chain. Callaway sources raw materials for its golf equipment, accessories, and all apparel from around the world. At the same time, Callaway delivers its finished products to company retailers through external shipping companies, such as United Parcel Service (UPS).1

This chapter first focuses on marketing channels of distribution and why they are an important component in the marketing mix. It then shows how such channels benefit consumers and the sequence of firms that make up a marketing channel. Finally, it describes factors that influence the choice and management of marketing channels, including channel conflict and cooperation.

The discussion then turns to the significance of supply chains and logistics management. In particular, attention is placed on the necessary alignment between supply chain management and marketing strategy and the trade-offs managers make between total distribution costs and customer service.

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NATURE AND IMPORTANCE OF MARKETING CHANNELS

LO 15-1

Explain what is meant by a marketing channel of distribution and why intermediaries are needed.

Reaching prospective buyers, either directly or indirectly, is a prerequisite for successful marketing. At the same time, buyers benefit from distribution systems used by companies.

What Is a Marketing Channel of Distribution?

You see the results of distribution every day. You may have purchased Lay’s potato chips at a 7-Eleven convenience store, a book online through Amazon.com, and Levi’s jeans at a Kohl’s department store. Each of these items was brought to you by a marketing channel of distribution, or simply a marketing channel, which consists of individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users.

Marketing channels can be compared to a pipeline through which water flows from a source to a terminus. Marketing channels make possible the flow of products and services from a producer, through intermediaries, to a buyer. Intermediaries go by various names (see Figure 15–1) and perform various functions. Some intermediaries purchase items from the seller, store them, and resell them to buyers. For example, Celestial Seasonings produces specialty teas and sells them to food wholesalers. The wholesalers then sell these teas to supermarkets and grocery stores, which, in turn, sell them to consumers. Other intermediaries such as brokers and agents represent sellers but do not actually take title to products—their role is to bring a seller and buyer together. Century 21 real estate agents are examples of this type of intermediary.

Figure 15–1 Terms used for marketing intermediaries vary in specificity and use in consumer and business markets.

How Customer Value Is Created by Intermediaries

The importance of intermediaries is made even clearer when we consider the functions they perform and the value they create for buyers.

Important Functions Performed by Intermediaries

Intermediaries make possible the flow of products from producers to ultimate consumers by performing three basic functions (see Figure 15–2). Intermediaries perform a transactional function when they buy and sell products or services. But an intermediary such as a wholesaler Page 409also performs the function of sharing risk with the producer when it stocks merchandise in anticipation of sales. If the stock is unsold for any reason, the intermediary—not the producer—suffers the loss.

Figure 15–2 Marketing channel intermediaries perform these fundamental functions, each of which consists of different activities.

The logistics of a transaction (described at length later in this chapter) involve the details of preparing and getting a product to buyers. Gathering, sorting, and dispersing products are some of the logistical functions of the intermediary—imagine the several books required for a literature course sitting together on one shelf at your college bookstore! Finally, intermediaries perform facilitating functions that, by definition, make a transaction easier for buyers. For example, Macy’s issues credit cards to consumers so they can buy now and pay later.

All three functions must be performed in a marketing channel, even though each channel member may not participate in all three. Channel members often negotiate which specific functions they will perform and for what price.

Consumer Benefits

Consumers also benefit from intermediaries. Having the products and services you want, when you want them, where you want them, and in the form you want them is the ideal result of marketing channels.

In more specific terms, marketing channels help create value for consumers through the four utilities described in Chapter 1: time, place, form, and possession. Time utility refers to having a product or service when you want it. For example, FedEx provides next-morning delivery. Place utility means having a product or service available where consumers want it, such as having a Chevron gas station located on a long stretch of lonely highway. Form utility involves enhancing a product or service to make it more appealing to buyers. Consider the importance of bottlers in the soft-drink industry. Coca-Cola and Pepsi-Cola manufacture the flavor concentrate (cola, lemon-lime) and sell it to bottlers—intermediaries—which then add sweetener and the concentrate to carbonated water and package the beverage in bottles and cans, which are then sold to retailers. Possession utility entails efforts by intermediaries to help buyers take possession of a product or service, such as having airline tickets delivered by a travel agency.

learning review

15-1. What is meant by a marketing channel?

15-2. What are the three basic functions performed by intermediaries?Page 410

MARKETING CHANNEL STRUCTURE AND ORGANIZATION

LO 15-2

Distinguish among traditional marketing channels, electronic marketing channels, and different types of vertical marketing systems.

A product can take many routes on its journey from a producer to buyers. Marketers continually search for the most efficient route from the many alternatives available. As you’ll see, there are some important differences between the marketing channels used for consumer products and business products.

Marketing Channels for Consumer Products and Services

Figure 15–3 shows the four most common marketing channels for consumer products and services. It also shows the number of levels in each marketing channel, as evidenced by the number of intermediaries between a producer and ultimate buyers. As the number of intermediaries between a producer and buyer increases, the channel is viewed as increasing in length. Thus, the producer → wholesaler → retailer → consumer channel is longer than the producer → consumer channel.

Figure 15–3 Common marketing channels for consumer products and services differ by the kind and number of intermediaries involved.

Direct Channel

Channel A represents a direct channel because the producer and the ultimate consumers deal directly with each other. Many products and services are distributed this way. Many insurance companies sell their services using a direct channel and branch sales offices. The Schwan’s Food Company of Marshall, Minnesota, the largest direct-to-home provider of frozen foods in the United States, uses route sales representatives who sell from refrigerated trucks. Because there are no intermediaries with a direct channel, the producer performs all channel functions.

Indirect Channel

The remaining three channel forms in Figure 15–3 are indirect channels because intermediaries are inserted between the producer and consumers and perform numerous channel functions. Channel B, with a retailer added, is most common when a retailer is large and can buy in large quantities from a producer or when the cost of inventory makes it too expensive to use a wholesaler. Automobile manufacturers such as Toyota use this channel, and a local car dealer acts as a retailer. Why is there no wholesaler? So many variations exist in the product that it would be impossible for a wholesaler to stock all the models required to satisfy buyers; in addition, the cost of maintaining an inventory would be too high. However, large retailers such as Target, 7-Eleven, Staples, Safeway, and Home Depot buy in sufficient quantities to make it cost effective for a producer to deal with only a retail intermediary.

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What kind of marketing channel does IBM use for its Watson computer—an artificially intelligent computer system capable of answering questions in natural language? Read the text to find out.

Ben Hider/Getty Images

Adding a wholesaler in Channel C is most common for low-cost, low-unit value items that are frequently purchased by consumers, such as candy, confectionary items, and magazines. For example, Mars sells case quantities of its line of candies to wholesalers, who then break down (sort) the cases so that individual retailers can order in boxes or much smaller quantities.

Channel D, the most indirect channel, is employed when there are many small manufacturers and many small retailers; in this type of channel, an agent is used to help coordinate a large supply of the product. Mansar Products, Ltd. is a Belgian producer of specialty jewelry that uses agents to sell to wholesalers in the United States, who then sell to many small independent jewelry retailers.

Marketing Channels for Business Products and Services

The four most common channels for business products and services are shown in Figure 15–4. In contrast with channels used for consumer products, business channels typically are shorter and rely on one intermediary or none at all because business users are fewer in number, tend to be more concentrated geographically, and buy in larger quantities.

Figure 15–4 Common marketing channels for business products and services differ by the kind and number of intermediaries involved.

Direct Channel

Channel A in Figure 15–4, represented by IBM’s large, mainframe computer business, is a direct channel. Firms using this channel maintain their own salesforce and perform all channel functions. This channel is employed when buyers are large and well defined, the sales effort requires extensive negotiations, and the products are of high unit value and require hands-on expertise in terms of installation or use. Not surprisingly, IBM’s Watson supercomputer, priced at $3 million, is sold and delivered directly to buyers.

Indirect Channel

Channels B, C, and D in Figure 15–4 are indirect channels with one or more intermediaries between the producer and the industrial user. In Channel B, an industrial distributor performs a variety of marketing channel functions, including selling, stocking, delivering a full product assortment, and financing. In many Page 412ways, industrial distributors are like wholesalers in consumer channels. Caterpillar uses industrial distributors to sell its construction and mining equipment in over 180 countries. In addition to selling, Caterpillar distributors stock 40,000 to 50,000 parts and service equipment using highly trained technicians.

Channel C introduces a second intermediary, an agent, who serves primarily as the independent selling arm of producers and represents a producer to industrial users. For example, Stake Fastener Company, a producer of industrial fasteners, has an agent call on industrial users rather than employing its own salesforce.

Channel D is the longest channel and includes both agents and industrial distributors. For instance, Harkman Electric, a producer of electric products, uses agents to call on electrical distributors who sell to industrial users.

Internet Marketing Channels

These common marketing channels for consumer and business products and services are not the only routes to the marketplace. Internet marketing channels also make products and services available for consumption or use by consumers or organizational buyers. A unique feature of these channels is that they combine electronic and traditional intermediaries to create time, place, form, and possession utility for buyers.

Figure 15–5 shows the Internet marketing channels for books (Amazon.com), automobiles (Autobytel.com), reservation services (Orbitz.com), and personal computers (Dell.com). Are you surprised that they look a lot like common consumer product marketing channels? An important reason for the similarity resides in the channel functions detailed in Figure 15–2. Electronic intermediaries can and do perform transactional and facilitating functions effectively and at a relatively lower cost than traditional intermediaries because of efficiencies made possible by Internet technology. But electronic intermediaries are incapable of performing elements of the logistical function, particularly for products such as books and automobiles. This function remains with traditional intermediaries or with the producer, as is evident with Dell Inc. and its direct channel.

Figure 15–5 Consumer Internet marketing channels look much like those for consumer products and services. Read the text to learn why.

Many services can be distributed through electronic marketing channels, such as car rental reservations marketed by Alamo.com, financial securities by Schwab.com, and insurance by MetLife.com. However, many other services, such as health care and auto repair, still involve traditional intermediaries.

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Eddie Bauer successfully engages in multichannel marketing through its 370 retail and outlet stores, its website, and its catalog.

Left: Bonnie Kamin/PhotoEdit, Inc.; Middle: Source: Eddie Bauer, LLC; Right: Mike Hruby

Eddie Bauer

www.eddiebauer.com

Direct and Multichannel Marketing

Many firms also use direct and multichannel marketing to reach buyers. Direct marketing channels allow consumers to buy products by interacting with various advertising media without a face-to-face meeting with a salesperson. Direct marketing channels include mail-order selling, direct-mail sales, catalog sales, telemarketing, interactive media, and televised home shopping (the Home Shopping Network). Some firms sell products almost entirely through direct marketing. These firms include L.L.Bean (apparel) and Newegg.com (consumer electronics). Marketers such as Nestlé, in addition to using traditional channels composed of wholesalers and retailers, also employ direct marketing through catalogs and telemarketing to reach more buyers.

Multichannel marketing, sometimes called omnichannel marketing, is the blending of different communication and delivery channels that are mutually reinforcing in attracting, retaining, and building relationships with consumers who shop and buy in traditional intermediaries and online. Multichannel marketing seeks to integrate a firm’s electronic marketing and delivery channels. At Eddie Bauer, for example, every effort is made to make the apparel shopping and purchase experience for its customers the same across its retail store, catalog, and website channels. According to an Eddie Bauer marketing manager, “We don’t distinguish between channels because it’s all Eddie Bauer to our customers.”2

Multichannel marketing also can leverage the value-adding capabilities of different channels. For example, retail stores leverage their physical presence by allowing customers to pick up their online orders at a nearby store or return or exchange nonstore purchases if they wish. Catalogs can serve as shopping tools for online purchasing, as they do for store purchasing. Websites can help consumers do their homework before visiting a store. Staples has leveraged its store, catalog, and website channels with impressive results. Staples is the third largest Internet retailer in the United States behind Amazon and Apple.3

Dual Distribution and Strategic Channel Alliances

In some situations, producers use dual distribution, an arrangement whereby a firm reaches different buyers by employing two or more different types of channels for the same basic product. For example, GE sells its large appliances directly to home and apartment builders but uses retail stores, including Lowe’s home centers, to sell to consumers. In some instances, firms pair multiple channels with a multibrand strategy (see Chapter 10). This is done to minimize cannibalization of the firm’s family brand and differentiate the channels. For example, Hallmark sells its Hallmark greeting cards through Hallmark stores and select department stores and its Ambassador brand of cards through discount and drugstore chains.

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VIDEO 15-1

Honey Nut Cheerios Ad

kerin.tv/13e/v15-1

An innovation in marketing channels is the use of strategic channel alliances, whereby one firm’s marketing channel is used to sell another firm’s products. Strategic alliances are popular in global marketing, where the creation of marketing channel relationships is expensive and time-consuming. For example, General Mills and Nestlé have an extensive alliance that spans about 140 international markets from Mexico to China. Read the Marketing Matters box so you won’t be surprised when you are served Nestlé (not General Mills) Cheerios when traveling outside North America.4

Marketing Matters

customer value

Nestlé and General Mills—Cereal Partners Worldwide

Can you say Nestlé Cheerios miel amandes? Millions in France start their day with this European equivalent of General Mills’s Honey Nut Cheerios, made possible by Cereal Partners Worldwide (CPW). CPW is a strategic alliance designed from the start to be a global business. It combines the cereal manufacturing and marketing capability of U.S.-based General Mills with the worldwide distribution clout of Swiss-based Nestlé. The photo shows Nestlé’s Trix cereal (not General Mills) sold in China.

From its headquarters in Switzerland, CPW first launched General Mills cereals under the Nestlé label in France, the United Kingdom, Spain, and Portugal in 1991. Today, CPW competes in more than 140 international markets.

The General Mills–Nestlé strategic channel alliance also increased the ready-to-eat cereal worldwide market share of these companies, which are already rated as the two best-managed firms in the world. CPW currently accounts for more than 10 percent of the nearly $30 billion worldwide hot- and cold-cereal market, with more than $4 billion in annual revenue.

picture alliance/Daniel Kalker/Newscom

Vertical Marketing Systems

The traditional marketing channels described so far represent a loosely knit network of independent producers and intermediaries brought together to distribute products and services. However, other channel arrangements exist for the purpose of improving efficiency in performing channel functions and achieving greater marketing effectiveness. These arrangements are called vertical marketing systems. Vertical marketing systems are professionally managed and centrally coordinated marketing channels designed to achieve channel economies and maximum marketing impact.5 Figure 15–6 depicts the three major types of vertical marketing systems: corporate, contractual, and administered.

Figure 15–6 There are three major types of vertical marketing systems—corporate, contractual, and administered. Contractual systems are the most popular for reasons described in the text.

Corporate Systems

The combination of successive stages of production and distribution under a single ownership is a corporate vertical marketing system. For example, a producer might own the intermediary at the next level down in the channel. This practice, called forward integration, is exemplified by Ralph Lauren, which manufactures clothing and also owns apparel shops. Other examples of forward integration include Goodyear, Apple, and Sherwin-Williams. Alternatively, a retailer might own a manufacturing operation, a practice called backward integration. For example, Kroger supermarkets operate manufacturing facilities that produce everything from aspirin to cottage cheese for sale under the Kroger label. Tiffany & Co., the exclusive jewelry retailer, manufactures about half of the fine jewelry items for sale through its over 250 specialty stores and boutiques worldwide.

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Companies seeking to reduce distribution costs and gain greater control over supply sources or resale of their products pursue forward and backward integration. However, both types of integration increase a company’s capital investment and fixed costs. For this reason, many companies favor contractual vertical marketing systems to achieve channel efficiencies and marketing effectiveness.

Contractual Systems

Under a contractual vertical marketing system, independent production and distribution firms integrate their efforts on a contractual basis to obtain greater functional economies and marketing impact than they could achieve alone. Contractual systems are the most popular among the three types of vertical marketing systems.

Three variations of contractual systems exist. Wholesaler-sponsored voluntary chains involve a wholesaler that develops a contractual relationship with small, independent retailers to standardize and coordinate buying practices, merchandising programs, and inventory management efforts. With the organization of a large number of independent retailers, economies of scale and volume discounts can be achieved to compete with chain stores. IGA and Ben Franklin variety and craft stores represent wholesaler-sponsored voluntary chains. Retailer-sponsored cooperatives exist when small, independent retailers form an organization that operates a wholesale facility cooperatively. Member retailers then concentrate their buying power through the wholesaler and plan collaborative promotional and pricing activities. Examples of retailer-sponsored cooperatives include Associated Grocers and Ace Hardware.

The most visible variation of contractual systems is franchising. Franchising is a contractual arrangement between a parent company (a franchisor) and an individual or firm (a franchisee) that allows the franchisee to operate a certain type of business under an established name and according to specific rules.

Four types of franchise arrangements are most popular. Manufacturer-sponsored retail franchise systems are prominent in the automobile industry, where a manufacturer such as Ford licenses dealers to sell its cars subject to various sales and service conditions. Manufacturer-sponsored wholesale franchise systems exist in the soft-drink industry. For example, Pepsi-Cola licenses wholesalers (bottlers) that purchase concentrate from Pepsi-Cola and then carbonate, bottle, promote, and distribute its products to retailers and restaurants. Service-sponsored retail franchise systems are used by firms that have designed a unique approach for performing a service and wish Page 416to profit by selling the franchise to others. Holiday Inn, Avis, and McDonald’s represent this type of franchising approach. Service-sponsored franchise systems exist when franchisors license individuals or firms to dispense a service under a trade name and according to specific guidelines. Examples include Snelling and Snelling, Inc. employment services and H&R Block tax services.

Administered Systems

In comparison, administered vertical marketing systems achieve coordination at successive stages of production and distribution by the size and influence of one channel member rather than through ownership. Procter & Gamble, given its broad product assortment ranging from disposable diapers to detergents, is able to obtain cooperation from supermarkets in displaying, promoting, and pricing its products. Walmart obtains cooperation from manufacturers in terms of product specifications, price levels, and promotional support due to its position as the world’s largest retailer.

learning review

15-3. What is the difference between a direct and an indirect channel?

15-4. Why are channels for business products typically shorter than channels for consumer products?

15-5. What is the principal distinction between a corporate vertical marketing system and an administered vertical marketing system?

MARKETING CHANNEL CHOICE AND MANAGEMENT

LO 15-3

Describe factors that marketing executives consider when selecting and managing a marketing channel, including legal restrictions.

Marketing channels not only link a producer to its buyers but also provide the means through which a firm implements various elements of its marketing strategy. Therefore, choosing a marketing channel is a critical decision.

Factors Affecting Channel Choice and Management

Marketing executives consider three questions when choosing a marketing channel and intermediaries:

Which channel and intermediaries will provide the best coverage of the target market?

Which channel and intermediaries will best satisfy the buying requirements of the target market?

Which channel and intermediaries will be the most profitable?

Target Market Coverage

Achieving the best coverage of the target market requires attention to the density—that is, the number of stores in a geographical area—and type of intermediaries to be used at the retail level of distribution. Three degrees of distribution density exist: intensive, exclusive, and selective.

Intensive distribution means that a firm tries to place its products and services in as many outlets as possible. Intensive distribution is usually chosen for convenience products or services such as candy, fast food, newspapers, and soft drinks. For example, Coca-Cola’s retail distribution objective is to place its products “within an arm’s reach of desire.” Cash, yes cash, is distributed intensively by Visa. It operates over 1.4 million automated teller machines in more than 200 countries.

Exclusive distribution is the extreme opposite of intensive distribution because only one retailer in a specific geographical area carries the firm’s products. Exclusive distribution is typically chosen for specialty products or services, such as some women’s fragrances and men’s and women’s apparel and accessories. Gucci, one of the world’s leading luxury products companies, uses exclusive distribution in the marketing of its Yves Saint Laurent, Sergio Rossi, Boucheron, Opium, and Gucci brands.

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Retailers and industrial distributors prefer exclusive distribution for two reasons. First, it limits head-to-head competition for an identical product. Second, it provides a point of difference for a retailer or distributor. For instance, luxury retailer Saks Inc. seeks exclusive product lines for its stores. According to the company CEO, “It’s incumbent on us not to be just a place where you can buy the big brands. Those brands are still critical—the Chanels, the Pradas, the Guccis—but even with those brands, we need to find things unique to us.”6

Selective distribution lies between these two extremes and means that a firm selects a few retailers in a specific geographical area to carry its products. Selective distribution weds some of the market coverage benefits of intensive distribution to the control over resale evident with exclusive distribution. For example, Dell Inc. chose selective distribution when it decided to sell its products through U.S. retailers along with its direct channel.7 According to Michael Dell, the company CEO, “There were plenty of retailers who said, ‘sell through us,’ but we didn’t want to show up everywhere.” The company now sells a limited range of its products through Walmart, Sam’s Club, Best Buy, and Staples. Dell’s decision was consistent with current trends. Today, selective distribution is the most common form of distribution intensity.

Buyer Requirements

A second consideration in channel choice is gaining access to channels and intermediaries that satisfy at least some of the interests buyers might want fulfilled when they purchase a firm’s products or services. These interests fall into four broad categories: (1) information, (2) convenience, (3) variety, and (4) pre- or postsale services. Each relates to customer experience.

Information is an important requirement when buyers have limited knowledge or desire specific data about a product or service. Properly chosen intermediaries communicate with buyers through in-store displays, demonstrations, and personal selling. Apple has opened over 400 retail outlets staffed with highly trained personnel to communicate how its products can better satisfy each customer’s needs.

Which buying requirements are satisfied by Jiffy Lube? Read the text to find out.

David McNew/Getty Images

Convenience has multiple meanings for buyers, such as proximity or driving time to a retail outlet. For example, 7-Eleven stores, with more than 50,000 outlets worldwide, many of which are open 24 hours a day, satisfy this interest for buyers. Candy and snack-food firms benefit by gaining display space in these stores. For other consumers, convenience means a minimum of time and hassle. Jiffy Lube, which promises to change engine oil and filters quickly, appeals to this aspect of convenience. For those who shop on the Internet, convenience means that websites must be easy to locate and navigate, and image downloads must be fast. A commonly held view among website developers is the “eight second rule”: Consumers will abandon their efforts to enter or navigate a website if download time exceeds eight seconds.8

Variety reflects buyers’ interest in having numerous competing and complementary items from which to choose. Variety is evident in the breadth and depth of products and brands carried by intermediaries, which enhances their attraction to buyers. Thus, manufacturers of pet food and supplies seek distribution through pet superstores such as Petco and PetSmart, which offer a wide array of pet products and services.

Pre- or postsale services provided by intermediaries are an important buying requirement for products such as large household appliances that require delivery, installation, and credit. Therefore, Whirlpool seeks dealers that provide such services.

Profitability

The third consideration in choosing a channel is profitability, which is determined by the margins earned (revenue minus cost) for each channel member and for the channel as a whole. Channel cost is the critical dimension of profitability. Page 418These costs include distribution, advertising, and selling expenses associated with different types of marketing channels. The extent to which channel members share these costs determines the margins received by each member and by the channel as a whole.

Companies routinely monitor the performance of their marketing channels. Read the Applying Marketing Metrics box to see how Charlesburg Furniture views the sales and profit performance of its marketing channels.

Applying Marketing Metrics

Channel Sales and Profit at Charlesburg Furniture

Charlesburg Furniture is one of 1,000 wood furniture manufacturers in the United States. The company sells its furniture through furniture store chains, independent furniture stores, and department store chains, mostly in the southern United States. The company has traditionally allocated its marketing funds for cooperative advertising, in-store displays, and retail sales support on the basis of dollar sales by channel.

Your Challenge

As the vice president of sales and marketing at Charlesburg Furniture, you have been asked to review the company’s sales and profit in its three channels and recommend a course of action. The question: Should Charlesburg Furniture continue to allocate its marketing funds on the basis of channel dollar sales or profit?

Your Findings

Charlesburg Furniture tracks the sales and profit from each channel (and individual customer) and the three-year trend of sales by channel on its marketing dashboard. This information is displayed in the marketing dashboards below.

Several findings stand out. Furniture store chains and independent furniture stores account for 85.2 percent of Charlesburg Furniture sales and 93 percent of company profit. These two channels also evidence growth as measured by annual percentage change in sales. By comparison, the annual percentage sales growth of department store chains has declined, recording negative growth in 2015. This channel accounts for 14.8 percent of company sales and 7 percent of company profit.

Your Action

Charlesburg Furniture should consider abandoning the practice of allocating marketing funds solely on the basis of channel sales volume. The importance of independent furniture stores to Charlesburg’s profitability warrants further spending, particularly given this channel’s favorable sales trend. Doubling the percentage allocation for marketing funds for this channel may be too extreme, however. Charlesburg Furniture might also consider the longer term role of department store chains as a marketing channel.

Managing Channel Relationships: Conflict and Cooperation

Unfortunately, because channels consist of independent individuals and firms, there is always the potential for disagreements concerning who performs which channel Page 419functions, how profits are allocated, which products and services will be provided by whom, and who makes critical channel-related decisions. These channel conflicts necessitate measures for dealing with them.

Sources of Conflict in Marketing Channels

Channel conflict arises when one channel member believes another channel member is engaged in behavior that prevents it from achieving its goals. Two types of conflict occur in marketing channels: vertical conflict and horizontal conflict.

Vertical conflict occurs between different levels in a marketing channel—for example, between a manufacturer and a wholesaler or retailer or between a wholesaler and a retailer. Three sources of vertical conflict are most common.9 First, conflict arises when a channel member bypasses another member and sells or buys products direct, a practice called disintermediation. For example, conflict occurred when American Airlines decided to terminate its relationship with Orbitz and Expedia, two online ticketing and travel sites, and sell directly through AA Direct Connect. Second, conflict occurs due to disagreements over how profit margins are distributed among channel members. This happened when Amazon and the Hachette Book Group, the third-largest trade book and educational publisher, engaged in a seven-month dispute about how e-book revenue should be divided between the two companies. A third conflict situation arises when manufacturers believe wholesalers or retailers are not giving their products adequate attention. For example, Nike stopped shipping popular sneakers such as Nike Shox NZ to Foot Locker in retaliation for the retailer’s decision to give more shelf space to shoes costing under $120.

Channel conflict is sometimes visible to consumers. Read the text to learn what type of channel conflict has antagonized this independent Goodyear tire dealer. Joe & Kathy Heiner/Lindgren & Smith, Inc.

Horizontal conflict occurs between intermediaries at the same level in a marketing channel, such as between two or more retailers (Target and Kmart) or two or more wholesalers that handle the same manufacturer’s brands. Two sources of horizontal conflict are common.10 First, horizontal conflict arises when a manufacturer increases its distribution coverage in a geographical area. For example, a franchised Cadillac dealer in Chicago might complain to General Motors that another franchised Cadillac dealer has located too close to its dealership. Second, dual distribution causes conflict when different types of retailers carry the same brands. For instance, independent Goodyear tire dealers became irate when Goodyear Tire Company decided to sell its brands through Sears, Walmart, and Sam’s Club. Many switched to competing tire makers.

Securing Cooperation in Marketing Channels

Conflict can have destructive effects on the workings of a marketing channel so it is necessary to secure cooperation among channel members. One means is through a channel captain, a channel member that coordinates, directs, and supports other channel members. Channel captains can be producers, wholesalers, or retailers. P&G assumes this role because it has a strong consumer following in brands such as Crest, Tide, and Pampers. Therefore, it can set policies or terms that supermarkets will follow. McKesson, a pharmaceutical drug wholesaler, is a channel captain because it coordinates and supports the product flow from numerous small drug manufacturers to drugstores and hospitals nationwide. Walmart is a retail channel captain because of its strong consumer image, number of outlets, and purchasing volume.

A firm becomes a channel captain because it is the channel member with the ability to influence the behavior of other members. Influence can take four forms. Page 420First, economic influence arises from the ability of a firm to reward other members given its strong financial position or customer franchise. Microsoft Corporation and Walmart have such influence. Expertise is a second source of influence. For example, American Hospital Supply helps its customers (hospitals) manage inventory and streamline order processing for hundreds of medical supplies. Third, identification with a particular channel member can create influence for that channel member. For instance, retailers may compete to carry the Ralph Lauren line, or clothing manufacturers may compete to be carried by Neiman Marcus, Nordstrom, or Bloomingdale’s. In both instances, the desire to be identified with a channel member gives that firm influence over others. Finally, influence can arise from the legitimate right of one channel member to direct the behavior of other members. This situation is likely to occur in contractual vertical marketing systems where a franchisor can legitimately direct how a franchisee behaves.

Legal Considerations

Conflict in marketing channels is typically resolved through negotiation or the exercise of influence by channel members. Sometimes conflict produces legal action. Therefore, knowledge of legal restrictions affecting channel strategies and practices is important. Some restrictions were described in Chapter 14, namely vertical price fixing and price discrimination. However, other legal considerations are unique to marketing channels.

In general, suppliers can select whomever they want as channel intermediaries and may refuse to deal with whomever they choose. However, the Federal Trade Commission and the Justice Department monitor channel practices that restrain competition, create monopolies, or otherwise represent unfair methods of competition under the Sherman Act (1890) and the Clayton Act (1914). Six channel practices have received the most attention (see Figure 15–7).

Figure 15–7 Channel strategies and practices are affected by legal restrictions. The Clayton Act and the Sherman Act restrict specific channel strategies and practices.

Dual distribution, although not illegal, can be viewed as anticompetitive in some situations. The most common situation arises when a manufacturer distributes through its own vertically integrated channel in competition with independent wholesalers and retailers that also sell its products. If the manufacturer’s behavior is viewed as an attempt to lessen competition by eliminating wholesalers or retailers, then such action would violate both the Sherman and Clayton Acts.

Vertical integration is viewed in a similar light. Although not illegal, this practice is sometimes subject to legal action under the Clayton Act if it has the potential to lessen competition or foster monopoly.

The Clayton Act specifically prohibits exclusive dealing and tying arrangements when they lessen competition or create monopolies. Exclusive dealing exists when a supplier requires channel members to sell only its products or restricts distributors from selling directly competitive products. Tying arrangements occur when a supplier requires a distributor purchasing some products to buy others from the supplier. These arrangements often arise in franchising. They are illegal if the tied products could be purchased at fair market values from other suppliers at desired quality standards of the Page 421franchiser. Full-line forcing is a special kind of tying arrangement. This practice involves a supplier requiring that a channel member carry its full line of products in order to sell a specific item in the supplier’s line.

Even though a supplier has a legal right to choose intermediaries to carry and represent its products, a refusal to deal with existing channel members may be illegal under the Clayton Act. Resale restrictions refer to a supplier’s attempt to stipulate to whom distributors may resell the supplier’s products and in what specific geographical areas or territories they may be sold. These practices have been prosecuted under the Sherman Act. Today, however, the courts apply the “rule of reason” in such cases and consider whether such restrictions have a “demonstrable economic effect.”

learning review

15-6. What are the three questions marketing executives consider when choosing a marketing channel and intermediaries?

15-7. What are the three degrees of distribution density?

15-8. What is meant by exclusive dealing?

LOGISTICS AND SUPPLY CHAIN MANAGEMENT

LO 15-4

Explain what supply chain and logistics management are and how they relate to marketing strategy.

A marketing channel relies on logistics to make products available to consumers and industrial users. Logistics involves those activities that focus on getting the right amount of the right products to the right place at the right time at the lowest possible cost. The performance of these activities is logistics management, the practice of organizing the cost-effective flow of raw materials, in-process inventory, finished goods, and related information from point of origin to point of consumption to satisfy customer requirements.

Three elements of this definition deserve emphasis. First, logistics deals with decisions needed to move a product from the source of raw materials to consumption—that is, the flow of the product. Second, those decisions have to be cost effective. Third, while it is important to drive down logistics costs, there is a limit: A firm needs to drive down logistics costs as long as it can deliver expected customer service, which means satisfying customer requirements. The role of management is to see that customer needs are satisfied in the most cost-effective manner. When properly done, the results can be spectacular. Consider Procter & Gamble. The company set out to meet consumer needs more effectively by collaborating and partnering with its suppliers and retailers to ensure that the right products reached store shelves at the right time and at a lower cost. The effort was judged a success when, during an 18-month period, P&G’s retail customers posted a $65 million savings in logistics costs and customer service increased.11

The P&G experience is not an isolated incident. Companies now recognize that getting the right items needed for consumption or production to the right place at the right time in the right condition at the right cost is often beyond their individual capabilities and control. Instead, collaboration, coordination, and information sharing among manufacturers, suppliers, and distributors are necessary to create a seamless flow of products and services to customers. This perspective is represented in the concept of a supply chain and the practice of supply chain management.

Supply Chains versus Marketing Channels

A supply chain refers to the various firms involved in performing the activities required to create and deliver a product or service to consumers or industrial users. It Page 422differs from a marketing channel in terms of the firms involved. A supply chain includes suppliers that provide raw material inputs to a manufacturer as well as the wholesalers and retailers that deliver finished products to consumers. The management process is also different.

Supply chain management is the integration and organization of information and logistics activities across firms in a supply chain for the purpose of creating and delivering products and services that provide value to consumers. The relation among marketing channels, logistics management, and supply chain management is shown in Figure 15–8. An important feature of supply chain management is its application of sophisticated information technology that allows companies to share and operate systems for order processing, transportation scheduling, and inventory and facility management.

Figure 15–8 Relating logistics management and supply chain management to supplier networks and marketing channels.

Sourcing, Assembling, and Delivering a New Car: The Automotive Supply Chain

All companies are members of one or more supply chains. A supply chain is essentially a series of linked suppliers and customers in which every customer is, in turn, a supplier to another customer until a finished product reaches the ultimate consumer. Even the simplified supply chain diagram for carmakers shown in Figure 15–9 illustrates how complex a supply chain can be.12 A carmaker’s supplier network includes thousands of firms that provide the 2,000 functional components, 30,000 parts, and 10 million lines of software code in a typical automobile. They provide items ranging from raw materials, such as steel and rubber, to components, including transmissions, tires, brakes, and seats, to complex subassemblies such as chassis and suspension Page 423systems that make for a smooth, stable ride. The process of coordinating and scheduling the flow of materials and components for their assembly into actual automobiles by carmakers is heavily dependent on logistical activities, including transportation, order processing, inventory control, materials handling, and information technology. A central link is the carmaker’s supply chain manager, who is responsible for translating customer requirements into actual orders and arranging for delivery dates and financial arrangements for automobile dealers.

Figure 15–9 The automotive supply chain includes thousands of firms that provide the functional components, software codes, and parts in a typical car.

Car photos: Mike Hruby

Logistical aspects of the automobile marketing channel are also an important part of the supply chain. Major responsibilities include transportation (which involves the selection and oversight of external carriers—trucking, airline, railroad, and shipping companies—for cars and parts to dealers), the operation of distribution centers, the management of finished goods inventories, and order processing for sales. Supply chain managers also play an important role in the marketing channel. They work with car dealer networks to ensure that the right mix of automobiles is delivered to each location. In addition, they make sure that spare and service parts are available so that dealers can meet the car maintenance and repair needs of consumers. All of this is done with the help of information technology that links the entire automotive supply chain. What does all of this cost? It is estimated that logistics costs represent 25 to 30 percent of the retail price that you pay for a new car.

Supply Chain Management and Marketing Strategy

VIDEO 15-2

IBM

kerin.tv/13e/v15-2

The automotive supply chain illustration shows how information and logistics activities are integrated and organized across firms to create and deliver a car to you, the consumer. What’s missing from this illustration is the linkage between a specific company’s supply chain and its marketing strategy. Just as companies have different marketing strategies, they also design and manage supply chains differently. The goals to be achieved by a firm’s marketing strategy determine whether its supply chain needs to be more responsive or efficient in meeting customer requirements.

Aligning a Supply Chain with Marketing Strategy

There are a variety of supply chain configurations, each of which is designed to perform different tasks well. Marketers today recognize that the choice of a supply chain follows from a clearly defined marketing strategy and involves three steps:13

Understand the customer. To understand the customer, a company must identify the needs of the customer segment being served. These needs, such as a desire for a low price or convenience of purchase, help a company define the relative importance of efficiency and responsiveness in meeting customer requirements.

Understand the supply chain. Second, a company must understand what a supply chain is designed to do well. Supply chains range from those that emphasize being responsive to customer requirements and demand to those that emphasize efficiency with a goal of supplying products at the lowest possible delivered cost.

Harmonize the supply chain with the marketing strategy. Finally, a company needs to ensure that what the supply chain is capable of doing well is consistent with the targeted customer’s needs and its marketing strategy. If a mismatch exists between what the supply chain does particularly well and a company’s marketing strategy, the company will need to either redesign the supply chain to support the marketing strategy or change the marketing strategy. Read the Marketing Matters box to learn how IBM overhauled its complete supply chain to support its marketing strategy.14

Marketing Matters

customer value

IBM’s Integrated Supply Chain—Delivering a Total Solution for Its Customers

IBM is one of the world’s great business success stories because of its ability to reinvent itself to satisfy shifting customer needs in a dynamic global marketplace. The company’s transformation of its supply chain is a case in point.

IBM has built a single integrated supply chain that can handle raw material procurement, manufacturing, logistics, customer support, order entry, and customer fulfillment across all of IBM—something that has never been done before. Why would IBM undertake this task? According to IBM’s former CEO, Samuel J. Palmisano, “You cannot hope to thrive in the IT industry if you are a high-cost, slow-moving company. Supply chain is one of the new competitive battlegrounds. We are committed to being the most efficient and productive player in our industry.”

Peter Probst/Alamy

The task is not easy. IBM’s supply chain management organization works out of 360 locations in 64 countries, tracking more than 1.5 million assets for both IBM and its clients. The organization also deals with about 23,000 suppliers in nearly 100 countries. Yet with surprising efficiency, IBM’s supply chain is linked from raw material sourcing to postsales support.

Today, IBM is uniquely poised to configure and deliver a tailored mix of hardware, software, and service to provide a total solution for its customers. Not surprisingly, IBM’s integrated supply chain is heralded as one of the best in the world!

How are these steps applied and how are efficiency and responsiveness considerations built into a supply chain? Let’s look at how two well-known companies—Dell and Walmart—have harmonized their supply chain and marketing strategy.15

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Kristoffer Tripplaar/Alamy

Dell: A Responsive Supply Chain

The Dell marketing strategy primarily targets customers who desire having the most up-to-date computer systems customized to their needs. These customers are also willing to (1) wait to have their customized computer system delivered in a few days, rather than picking out a model at a retail store, and (2) pay a reasonable, though not the lowest, price in the marketplace. Given Dell’s customer segment, the company has the option of adopting an efficient or responsive supply chain.

An efficient supply chain may use inexpensive, but slower, modes of transportation, emphasize economies of scale in its production process by reducing the variety of system configurations offered, and limit its assembly and inventory storage facilities to a single location. If Dell opted only for efficiency in its supply chain, it would be difficult to satisfy its target customers’ desire for rapid delivery and a wide variety of customizable products with its assembly and storage facilities confined to its headquarters in Austin, Texas.

Dell instead has opted for a responsive supply chain. It relies on more expensive express transportation for receipt of components from suppliers and delivery of finished products to customers. The company achieves product variety and manufacturing efficiency by designing common platforms across several products and using common components. Also, Dell has invested heavily in information technology to link itself with suppliers and customers.

R Heyes Design / Alamy

Walmart: An Efficient Supply Chain

Now let’s consider Walmart. Walmart’s marketing strategy is to be a reliable, lower-price retailer for a wide variety of mass consumption consumer goods. This strategy favors an efficient supply chain designed to deliver products to 245 million consumers each week at the lowest possible cost. Efficiency is achieved in a variety of ways. For instance, Walmart keeps relatively low inventory levels, and most of it is stocked in stores available for sale, not in warehouses gathering dust. The low inventory arises from Walmart’s use of cross-docking—a practice that involves unloading products from suppliers, sorting products for individual stores, and quickly reloading products onto its trucks for a particular store. No warehousing or storing of products occurs, except for a few hours or, at most, a day. Cross-docking allows Walmart to operate only a small number of distribution centers to service its vast network of Walmart stores, Supercenters, Neighborhood Markets, Marketside stores, and Sam’s Clubs, which contributes to efficiency.

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Walmart has invested much more than its competitors in information technology to operate its supply chain. The company feeds information about customer requirements and demand from its stores back to its suppliers, which manufacture only what is being demanded. This large investment has improved the efficiency of Walmart’s supply chain and made it responsive to customer needs.

Three lessons can be learned from these two examples. First, there is no one best supply chain for every company. Second, the best supply chain is the one that is consistent with the needs of the customer segment being served and complements a company’s marketing strategy. And finally, supply chain managers are often called upon to make trade-offs between efficiency and responsiveness on various elements of a company’s supply chain.

TWO CONCEPTS OF LOGISTICS MANAGEMENT IN A SUPPLY CHAIN

The objective of logistics management in a supply chain is to minimize total logistics costs while delivering the appropriate level of customer service.

Total Logistics Cost Concept

For our purposes, total logistics cost includes expenses associated with transportation, materials handling and warehousing, inventory, stockouts (being out of inventory), order processing, and return products handling. Note that many of these costs are interrelated so that changes in one will impact the others. For example, if a firm attempts to reduce its transportation costs by shipping in larger quantities, it will increase its inventory levels. While larger inventory levels will increase inventory costs, they should also reduce stockouts. It is important, therefore, to study the impact on all of the logistics decision areas when considering a change.

Customer Service Concept

Because a supply chain is a flow, the end of it—or output—is the service delivered to customers. Within the context of a supply chain, customer service is the ability of logistics management to satisfy users in terms of time, dependability, communication, and convenience. As suggested by Figure 15–10, a supply chain manager’s key task is to balance these four customer service factors against total logistics cost factors.

Figure 15–10 Supply chain managers balance total logistics cost factors against customer service factors.

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Time

In a supply chain setting, time refers to order cycle or replenishment time for an item, which means the time between the ordering of an item and when it is received and ready for use or sale. The various elements that make up the typical order cycle include recognition of the need to order, order transmittal, order processing, documentation, and transportation. A current emphasis in supply chain management is to reduce order cycle time so that the inventory levels of customers may be minimized. Another emphasis is to make the process of reordering and receiving products as simple as possible, often through inventory systems called quick response and efficient consumer response delivery systems. For example, at Saks Fifth Avenue, point-of-sale scanner technology records each day’s sales. When stock falls below a minimum level, a replenishment order is automatically produced. Vendors such as Donna Karan (DKNY) receive the order, which is processed and delivered within 48 hours.16

Dependability

Dependability is the consistency of replenishment. This is important to all firms in a supply chain—and to consumers. How often do you return to a store if it fails to have in stock the item you want to purchase? Dependability can be broken into three elements: consistent lead time, safe delivery, and complete delivery. Consistent service allows planning (such as appropriate inventory levels), whereas inconsistencies create surprises. Intermediaries may be willing to accept longer lead times if they know about them in advance and can thus make plans.

Communication

Communication is a two-way link between the buyer and supplier that helps in monitoring service and anticipating future needs. Status reports on orders are a typical example of communication between the buyer and seller.

Convenience

The concept of convenience for a supply chain manager means that there should be a minimum of effort on the part of the buyer in doing business with the seller. Is it easy for the customer to order? Are the products available from many outlets? Will the seller arrange all necessary details, such as transportation? This customer service factor has promoted the use of vendor-managed inventory (VMI), whereby the supplier determines the product amount and assortment a customer (such as a retailer) needs and automatically delivers the appropriate items.

Campbell Soup’s system illustrates how VMI works.17 Every morning, retailers electronically inform the company of their demand for all Campbell products and the inventory levels in their distribution centers. Campbell uses that information to forecast future demand and determine which products need replenishment based on upper and lower inventory limits established with each retailer. Trucks leave the Campbell shipping plant that afternoon and arrive at the retailer’s distribution centers with the required replenishments the same day.

CLOSING THE LOOP: REVERSE LOGISTICS

The flow of products in a supply chain does not end with the ultimate consumer or industrial user. Companies today recognize that a supply chain can work in reverse. Reverse logistics is a process of reclaiming recyclable and reusable materials, returns, and reworks from the point of consumption or use for repair, remanufacturing, redistribution, or disposal. The effect of reverse logistics can be seen in the reduced waste in landfills and lowered operating costs for companies. The Making Responsible Decisions box describes the successful reverse logistics initiative at Hewlett-Packard.18

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Making Responsible Decisions

Sustainability

Reverse Logistics and Green Marketing Go Together at Hewlett-Packard: Recycling e-Waste

About 53 million tons of electronics and electronic equipment find their way to landfills around the world annually. Americans alone discarded over 400 million analog TV sets and computer monitors and Japanese consumers trashed more than 610 million cell phones in 2014. The result? Landfills are seeping lead, chromium, mercury, and other toxins prevalent in digital debris into the environment.

Fortunately, Hewlett-Packard has taken it upon itself to act responsibly and address this issue through its highly regarded reverse logistics program. Hewlett-Packard has recycled computer and printer hardware since 1987 and is an industry leader in this practice. The company’s recycling service is available today in more than 73 countries, regions, and territories. By early 2015, Hewlett-Packard will have recycled over 2 billion pounds of used electronic products and supplies to be refurbished for resale or donation or for recovery of materials.

Source: Hewlett-Packard Development Company, L.P.

The recycling effort at Hewlett-Packard is also part of the company’s Design for Supply Chain program. Among other initiatives in this program, emphasis is placed on product and packaging changes to reduce reverse supply chain and environmental costs. For example, more than 75 percent of the company’s ink cartridges and 24 percent of its LaserJet toner cartridges are now manufactured with recycled plastic.

VIDEO 15-3

UPS

kerin.tv/13e/v15-3

Companies such as Motorola and Nokia (return and reuse of mobile phones) and Caterpillar, Xerox, and IBM (remanufacturing and recycling) have implemented acclaimed reverse logistics programs. Other firms have enlisted third-party logistics providers such as UPS, FedEx, and Penske Logistics to handle this process along with other supply chain functions. GNB Technologies, Inc., a manufacturer of lead-acid batteries for automobiles and boats, has outsourced much of its supply chain activity to UPS Supply Chain Services.19 The company contracts with UPS to manage its shipments between plants, distribution centers, recycling centers, and retailers. This includes movement of both new batteries and used products destined for recycling and covers both truck and railroad shipments. This partnership, along with the initiatives of other battery makers, has paid economic and ecological dividends. By recycling 90 percent of the lead from used batteries, manufacturers have kept the demand for new lead in check, thereby holding down costs to consumers. Also, solid waste management costs and the environmental impact of lead in landfills are reduced.

learning review

15-9. What is the principal difference between a marketing channel and a supply chain?

15-10. The choice of a supply chain involves what three steps?

15-11. A manager’s key task is to balance which four customer service factors against which six logistics cost factors?

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LEARNING OBJECTIVES REVIEW

LO 15-1 Explain what is meant by a marketing channel of distribution and why intermediaries are needed.

A marketing channel of distribution, or simply a marketing channel, consists of individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users. Intermediaries make possible the flow of products from producers to buyers by performing three basic functions. The transactional function involves buying, selling, and risk taking because intermediaries stock merchandise in anticipation of sales. The logistical function involves the gathering, storing, and dispensing of products. The facilitating function assists producers in making products and services more attractive to buyers. The performance of these functions by intermediaries creates time, place, form, and possession utility for consumers.

LO 15-2 Distinguish among traditional marketing channels, electronic marketing channels, and different types of vertical marketing systems.

Traditional marketing channels describe the route taken by products and services from producers to buyers. This route can range from a direct channel with no intermediaries, because a producer and the ultimate consumer deal directly with each other, to indirect channels where intermediaries (agents, wholesalers, distributors, or retailers) are inserted between a producer and consumer and perform numerous channel functions. Electronic marketing channels employ the Internet to make products and services available for consumption or use by consumer or business buyers. Vertical marketing systems are professionally managed and centrally coordinated marketing channels designed to achieve channel economies and maximum marketing impact. There are three major types of vertical marketing systems (VMSs). A corporate VMS combines successive stages of production and distribution under a single ownership. A contractual VMS exists when independent production and distribution firms integrate their efforts on a contractual basis to obtain greater functional economies and marketing impact than they could achieve alone. An administered VMS achieves coordination at successive stages of production and distribution by the size and influence of one channel member rather than through ownership.

LO 15-3 Describe factors that marketing executives consider when selecting and managing a marketing channel, including legal restrictions.

Marketing executives consider three questions when selecting and managing a marketing channel and intermediaries. (1) Which channel and intermediaries will provide the best coverage of the target market? Marketers typically choose one of three levels of market coverage: intensive, selective, or exclusive distribution. (2) Which channel and intermediaries will best satisfy the buying requirements of the target market? These buying requirements fall into four categories: information, convenience, variety, and pre- or postsale services. (3) Which channel and intermediaries will be the most profitable? Here marketers look at the margins earned (revenues minus cost) for each channel member and for the channel as a whole.

LO 15-4 Explain what supply chain and logistics management are and how they relate to marketing strategy.

A supply chain refers to the various firms involved in performing the various activities required to create and deliver a product or service to consumers or industrial users. Supply chain management is the integration and organization of information and logistics across firms for the purpose of creating value for consumers. Logistics involves those activities that focus on getting the right amount of the right products to the right place at the right time at the lowest possible cost. Logistics management includes the coordination of the flows of both inbound and outbound products, an emphasis on making these flows cost effective, and customer service. A company’s supply chain follows from a clearly defined marketing strategy. The alignment of a company’s supply chain with its marketing strategy involves three steps. First, a supply chain must reflect the needs of the customer segment being served. Second, a company must understand what a supply chain is designed to do well. Supply chains range from those that emphasize being responsive to customer requirements and demands to those that emphasize efficiency with the goal of supplying products at the lowest possible delivered cost. Finally, a supply chain must be consistent with the targeted customer’s needs and the company’s marketing strategy. The Dell and Walmart examples in the chapter illustrate how this alignment is achieved by two market leaders.

LEARNING REVIEW ANSWERS

15-1 What is meant by a marketing channel?

Answer: A marketing channel consists of individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users.

15-2 What are the three basic functions performed by intermediaries?

Answer: Intermediaries perform transactional, logistical, and facilitating functions.

15-3 What is the difference between a direct and an indirect channel?

Answer: A direct channel is one in which a producer of consumer or business products and services and ultimate consumers or industrial users deal directly with each other. An indirect channel has intermediaries that are inserted between the producer and ultimate consumers or industrial users and perform numerous channel functions.

15-4 Page 429Why are channels for business products typically shorter than channels for consumer products?

Answer: Business channels are typically shorter than consumer channels because business users are fewer in number, tend to be more concentrated geographically, and buy in larger quantities.

15-5 What is the principal distinction between a corporate vertical marketing system and an administered vertical marketing system?

Answer: A corporate vertical marketing system combines successive stages of production and distribution under a single ownership. An administered vertical marketing system achieves coordination by the size and influence of one channel member rather than through ownership.

15-6 What are the three questions marketing executives consider when choosing a marketing channel and intermediaries?

Answer: The three questions to consider when choosing a marketing channel and intermediaries are: (1) Which will provide the best coverage of the target market? (2) Which will best satisfy the buying requirements of the target market? (3) Which will be the most profitable?

15-7 What are the three degrees of distribution density?

Answer: intensive; exclusive; selective

15-8 What is meant by exclusive dealing?

Answer: Exclusive dealing exists when a supplier requires channel members to sell only its products or restricts distributors from selling directly competitive products. It is strictly prohibited under the Clayton Act when it lessens competition or creates monopolies.

15-9 What is the principal difference between a marketing channel and a supply chain?

Answer: A marketing channel consists of individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users. A supply chain differs from a marketing channel in terms of membership. It includes suppliers who provide raw materials to a manufacturer as well as the wholesalers and retailers—the marketing channel—that deliver the finished goods to ultimate consumers.

15-10 The choice of a supply chain involves what three steps?

Answer: (1) Understand the customer. (2) Understand the supply chain. (3) Harmonize the supply chain with the marketing strategy.

15-11 A manager’s key task is to balance which four customer service factors against which six logistics cost factors?

Answer: The four customer service factors are time, dependability, communication, and convenience. The logistics cost factors are transportation costs, materials handling and warehousing costs, inventory costs, stockout costs (being out of inventory), order processing costs, and return products handling costs.

FOCUSING ON KEY TERMS

channel conflict, 419

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vendor-managed inventory (VMI), 426

vertical marketing systems, 414

APPLYING MARKETING KNOWLEDGE

A distributor for Celanese Chemical Company stores large quantities of chemicals, blends these chemicals to satisfy the requests of customers, and delivers the blends to a customer’s warehouse within 24 hours of receiving an order. What utilities does this distributor provide?

Suppose the president of a carpet manufacturing firm has asked you to look into the possibility of bypassing the firm’s wholesalers (who sell to carpet, department, and furniture stores) and selling direct to these stores. What caution would you voice on this matter, and what type of information would you gather before making this decision?

What type of channel conflict is likely to be caused by dual distribution, and what type of conflict can be reduced by direct distribution? Why?

How does the channel captain idea differ among corporate, administered, and contractual vertical marketing systems with particular reference to the use of the different forms of influence available to firms?

List the customer service factors that would be vital to buyers in the following types of companies: (a) manufacturing, (b) retailing, (c) hospitals, and (d) construction.

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BUILDING YOUR MARKETING PLAN

Does your marketing plan involve selecting channels and intermediaries? If the answer is “no,” read no further and do not include this element in your plan. If the answer is “yes”:

Identify which channel and intermediaries will provide the best coverage of the target market for your product or service.

Specify which channel and intermediaries will best satisfy the important buying requirements of the target market.

Determine which channel and intermediaries will be the most profitable.

Select your channel(s) and intermediary(ies).

If inventory is involved, (a) identify the three or four major kinds of inventory needed for your organization (retail stock, finished products, raw materials, supplies, and so on), and (b) suggest ways to reduce their costs.

(a) Rank the four customer service factors (time, dependability, communication, and convenience) from most important to least important from your customers’ point of view, and (b) identify actions for the one or two factors that are the most important in regard to your product or service.

Video Case 15 Video Case 15: Amazon: Delivering the Earth’s Biggest Selection!

VIDEO 15-4

Amazon Video Case

kerin.tv/13e/v15-4

“The secret is we are on our seventh generation of fulfillment centers and we have gotten better every time,” explains Jeff Bezos, CEO of Amazon.com, Inc. The global online retailer is a pioneer of fast, convenient, low-cost shopping that has attracted millions of consumers. Of course, while Amazon has changed the way many people shop, the company still faces the traditional and daunting task of creating a seamless flow of deliveries to its customers—often millions of times each day.

THE COMPANY

Bezos started Amazon.com with a simple idea: use the Internet to transform book buying into the fastest, easiest, and most enjoyable shopping experience possible. The company was incorporated in 1994 and launched its website in July 1995. At the forefront of a huge growth of dot-com businesses, Amazon pursued a get-big-fast business strategy. Sales grew rapidly and Amazon began adding products and services other than books. In fact, Amazon soon set its goal on being “Earth’s most customer-centric company, where customers can find and discover virtually anything they might want to buy online.”

Today Amazon.com continues to grow by providing low prices, vast selection, and convenience. Its selection of products covers a broad range of categories including: Books; Movies, Music & Games; Electronics & Computers; Home, Garden & Tools; Beauty, Health & Grocery; Toys; Clothing, Shoes & Jewelry; Sports & Outdoors; and Automotive & Industrial. In addition, Amazon offers digital music, an appstore for Android, Amazon Cloud Drive, Kindle e-readers, Kindle Fire tablets, Amazon Fire TV, and the Amazon Fire phone. Other services allow customers to:

Search for a product or brand using all or part of its name.

Place orders with one click using the “Buy Now with 1-Click” button on the website, and the “Mobile 1-Click” button for phones.

Receive personalized recommendations based on past purchases through opt-in e-mails.

These products and services have attracted millions of people around the globe. Further, the company’s growth has made Amazon.com, along with its international sites in Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, Spain, and the United Kingdom, the world’s largest online retailer.

Amazon’s e-commerce platform is also used by more than 2 million small businesses, retail brands, and individual sellers. For example, programs such as Selling on Amazon, Fulfillment by Amazon, Amazon Webstore, and Checkout by Amazon allow small businesses to use Amazon’s e-commerce platform to facilitate sales. Online retailers store their products at Amazon’s fulfillment centers and when they sell a product, Amazon ships it! Amazon.com also operates retail websites for brands such as bebe, Marks & Spencer, Lacoste, and AOL’s Shop@AOL. Individual sellers use the Amazon network to reach millions of potential customers. These business partnerships all contribute to Amazon’s sales, which now exceed $75 billion.

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Source: Amazon.com, Inc.

Bezos defines Amazon by its “big ideas, which are customer centricity, putting the customer at the center of everything we do, and invention—we like to pioneer, we like to explore.” Amazon’s success is also the result of an intense focus on cost and efficiency that leads to lower prices. More specifically, Amazon is exceptional at managing the elements of its supply chain, which make up one of the most complex and expensive aspects of the company’s business.

SUPPLY CHAIN AND LOGISTICS MANAGEMENT AT AMAZON.COM

What happens after an order is submitted on Amazon’s website but before it arrives at the customer’s door? A lot. Amazon.com maintains huge distribution, or “fulfillment,” centers where it keeps inventory of millions of products. This is one of the key differences between Amazon.com and some of its competitors—it actually stocks products. Bezos describes how they have improved: “Years ago, I drove the Amazon packages to the post office every evening in the back of my Chevy Blazer. My vision extended so far that I dreamed we might one day get a forklift. Fast-forward to today and we have 96 fulfillment centers.” So Amazon must manage the flow of products from its 15 million-plus suppliers to its U.S. and international fulfillment centers with the flow of customer orders from the fulfillment centers to individuals’ homes or offices.

The process begins with the suppliers. Amazon collaborates with its suppliers to increase efficiencies and improve inventory turnover. For example, Amazon uses software to forecast purchasing patterns by region, which allows it to give its suppliers better information about delivery dates and volumes. After the products arrive at the fulfillment center they are scanned and placed on shelves in what often appear to be haphazard locations. That is, books may be on the same shelf next to toys and kitchen utensils. Dave Clark, vice president of worldwide operations and customer service at Amazon, explains: “If you look at how these items fit in the bin, they are optimized to utilize the available space, we have computers and algorithms that tell people the areas of the building that have the most space to put the product that’s coming in at that time.” Clark observes that one of its 1-million-square-foot fulfillment centers (the size of more than 20 football fields) represents a “physical manifestation of earth’s biggest selection.”

At the same time, Amazon has been improving the part of the process that sorts the products into the individual orders. Once an order is placed in the computer system, sophisticated software generates a map of the location of each product and a “pick ambassador” walks the aisles to select the products. Each item is scanned as it is selected so that inventory levels and locations are always up-to-date. Packers ensure that all items are included in the box before it is taped and labeled. The boxes then travel along a conveyor belt and are diverted into groups based on the delivery location. A network of trucks and regional postal hubs then conclude the process with delivery of the order. Amazon actually uses more trucks than planes!

The success of Amazon’s logistics and supply chain management activities may be most evident during the year-end holiday shopping season. Amazon received orders for 36.8 million items on Cyber Monday (the Monday following Thanksgiving), including orders for Xbox and PlayStation gaming consoles that reached more than 1,000 units per minute. During the entire holiday season Amazon shipped orders to 185 countries. Well over 99 percent of the orders were shipped and delivered on time.

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CONTINUOUS IMPROVEMENT AT AMAZON

In a recent letter to Amazon shareholders Bezos reported that Amazon employees are “always asking how do we make this better?” He also described the Amazon Kaizen program (named for the Japanese term meaning “change for the better”) and how it is used to streamline processes and reduce defects and waste. As a result there are many new changes and improvements under way at Amazon, many of which are related to its supply chain and logistics management approach.

One example of a new service at Amazon is Amazon Fresh, its online, same-day-delivery service for groceries. The service has been in trial stage in Seattle for several years and recently expanded to Los Angeles and San Francisco. The success of the service in these cities is likely to influence how quickly Amazon expands into other cities. Another new service at Amazon is based on its agreement with the United States Postal Service to offer Sunday delivery to select cities. The demand for this service in the trial cities will also influence how quickly it is rolled out to other cities. Finally Amazon received a lot of attention when it revealed that it is developing unmanned aerial drones that could fly small shipments to customers within 30 minutes. “We can carry objects up to 5 pounds which covers 86 percent of the items that we deliver,” explains Bezos. The Federal Aviation Administration granted Amazon permission to fly drones experimentally in early 2015.

Amazon.com has come a long way since 1995. Its logistics and supply chain management activities have provided Amazon with a cost-effective and efficient distribution system that combines automation and communication technology with superior customer service. To continue its drive to increase future sales, profits, and customer service, Amazon continues to use its inventive spirit to encourage innovation. According to Bezos, “what we are doing is challenging and fun—we get to work in the future.”20

Questions

How do Amazon.com’s logistics and supply chain management activities help the company create value for its customers?

What systems did Amazon develop to improve the flow of products from suppliers to Amazon fulfillment centers? What systems improved the flow of orders from the fulfillment centers to customers?

Why will logistics and supply chain management play an important role in the future success of Amazon.com?

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16

Retailing and Wholesaling

LEARNING OBJECTIVES

After reading this chapter you should be able to:

LO 16-1 Identify retailers in terms of the utilities they provide.

LO 16-2 Explain the alternative ways to classify retail outlets.

LO 16-3 Describe the many methods of nonstore retailing.

LO 16-4 Classify retailers in terms of the retail positioning matrix, and specify retailing mix actions.

LO 16-5 Explain changes in retailing with the wheel of retailing and the retail life-cycle concepts.

LO 16-6 Describe the types of firms that perform wholesaling activities and their functions.

Shoppers Are Wearing the Future of Retailing!

What will retailing look like in the future? What may be the most influential change taking place for retailers today? Don’t look now but the answer is: you are wearing it!

Wearable technology has the potential to completely change the way we shop, and just as importantly, the way retailers sell. You may already own some of the early forms of wearable technology, such as the wristbands that track your activity. More recently, new products such as smartwatches and connected glasses have added many new capabilities. How will these technologies change retailing?

For consumers, wearable technology has the potential to create an enhanced customer experience. Smartwatches can provide information about deals, locations of products, and faster checkout. Target and Kohl’s, for example, send messages about special offers to Apple Watch wearers who are near their stores. Once shoppers are in the store their smartphone app will direct them toward sale items and alert them when they are near a selected product. Marsh Supermarkets use the List Ease shopping app developed by mobile marketing company InMarket to guide shoppers to groceries on their list. “Think of it as a list on your wrist,” explains InMarket’s Dave Heinzinger. Similarly, Apple Watch users who “like” a recipe on cooking app Epicurious will be directed to the ingredients needed to make the meal!

Smartphones will also change the checkout experience for shoppers. Valpak has created an app to provide Apple Watch wearers access to coupons for stores within a 25-mile radius of their location. Similarly, loyalty card apps will eliminate the need to carry, and find, the cards as they will store the barcodes and provide them for display when needed. Even more dramatic is the growing use of near field communication (NFC) products such as Apple Pay and Google Wallet, which permit consumers to pay by holding a device near a payment terminal. In the case of an Apple Watch wearer, simply moving the watch near the scanner will initiate a payment from the shopper’s credit card.

Retailers will benefit also. Connected glasses, such as Google Glass, resemble a pair of eyeglasses with a small display screen visible to the wearer. Image and voice recognition capabilities allow relevant information to be displayed on the screen. While consumers have been slow to adopt the glasses because of their appearance, enterprise applications have been much more successful. Retail clerks, salespeople, and technicians use the glasses to check manuals for technical information, verify stock inventories, place orders, or even check out customers from anywhere in the store.

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VIDEO 16-1

Apple Watch

kerin.tv/13e/v16-1

In the near future smart contact lenses will be available to consumers and retailers. The lenses will have the potential to create an augmented reality that overlays the physical, real-world environment with stored images or graphics. For example, customers could see how a new piece of furniture would look in their apartment or if the color of a pair of shoes matches clothes at home in their closet.1

Marcio Jose Sanchez/AP Images

Source: Virgin Airlines

Consumer Trends/Alamy

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These are just a few examples of the many exciting changes occurring in retailing today. This chapter examines the critical role of retailing in the marketplace and the challenging decisions retailers face as they strive to create value for customers.

What types of products will consumers buy through catalogs, television, the Internet, or by telephone? In what type of store will consumers look for products they don’t buy directly? How important is the location of the store? Will customers expect services such as alterations, delivery, installation, or repair? What price should be charged for each product? These are difficult and important questions that are an integral part of retailing. In the channel of distribution, retailing is where the customer meets the product. It is through retailing that exchange (a central aspect of marketing) occurs. Retailing includes all activities involved in selling, renting, and providing products and services to ultimate consumers for personal, family, or household use.

THE VALUE OF RETAILING

LO 16-1

Identify retailers in terms of the utilities they provide.

Retailing is an important marketing activity. Not only do producers and consumers meet through retailing actions, but retailing also creates customer value and has a significant impact on the economy. To consumers, the value of retailing is in the form of utilities provided (see Figure 16–1). Retailing’s economic value is represented by the people employed in retailing as well as by the total amount of money exchanged in retail sales (see Figure 16–2).

Figure 16–1 Which retailer best provides which utilities?

Figure 16–2 Are you surprised by the relative sales of different types of retailers?

Consumer Utilities Offered by Retailing

The utilities provided by retailers create value for consumers. Time, place, form, and possession utilities are offered by most retailers in varying degrees, but one utility is often emphasized more than others. Look at Figure 16–1 to see how well you can match the retailer with the utility being emphasized in the description.

VIDEO 16-2

CarMax

kerin.tv/13e/v16-2

Providing mini banks in supermarkets, as Wells Fargo does, puts the bank’s products and services close to the consumer, providing place utility. By providing financing Page 437or leasing and taking used cars as trade-ins, CarMax makes the purchase easier and provides possession utility. Form utility—production or alteration of a product—is offered by Ralph Lauren through its online Create Your Own program, which offers shirts that meet each customer’s specifications. Finding the right sporting equipment during the off-season is the time utility provided by Sports Authority. Many retailers offer a combination of the four basic utilities. Some supermarkets, for example, offer convenient locations (place utility); are open 24 hours a day (time utility); customize purchases in the bakery, deli, and florist (form utility); and allow several payment and credit options (possession utility).

The Global Economic Impact of Retailing

Tesco is one of the largest retailers outside the United States.

Keenretail/Alamy

Retailing is important to the U.S. and global economies. Four of the 40 largest businesses in the United States are retailers (Walmart, Costco, Home Depot, and Target). Walmart’s $485 billion in annual sales in 2014 surpassed the gross domestic product of all but 38 countries for that same year. Walmart, Costco, Home Depot, and Target together have more than 3 million employees—more than the combined populations of Jacksonville, Florida; Austin, Texas; and San Jose, California.2 Figure 16–2 shows that many types of retailers, including food stores, automobile dealers, and general merchandise outlets, are also significant contributors to the U.S. economy.3

Outside the United States large retailers include Aeon in Japan, Carrefour in France, Metro Group in Germany, and Tesco in Britain.4 In emerging economies such as China and Mexico, a combination of local and global retailers is evolving. Walmart, for example, has more than 6,300 stores outside the United States, including stores in Argentina, Brazil, China, India, Japan, Mexico, and the United Kingdom. Despite the presence of these large retailers, however, most international markets are dominated by local retailers.5

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learning review

16-1. When Ralph Lauren makes shirts to a customer’s exact preferences, what utility is provided?

16-2. Two measures of the impact of retailing in the global economy are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

CLASSIFYING RETAIL OUTLETS

LO 16-2

Explain the alternative ways to classify retail outlets.

For manufacturers, consumers, and the economy, retailing is an important component of marketing that has several variations. Because of the large number of alternative forms of retailing, it is easier to understand the differences among retail institutions by recognizing that outlets can be classified in several ways. First, form of ownership distinguishes retail outlets based on whether independent retailers, corporate chains, or contractual systems own the outlet. Second, level of service is used to describe the degree of service provided to the customer. Three levels of service are provided by self-, limited-, and full-service retailers. Finally, the type of merchandise line describes how many different types of products a store carries and in what assortment. The alternative types of outlets are discussed in greater detail in the following pages. For many consumers today, retail outlets are also evaluated in terms of their environmentally friendly, or green, activities, in addition to their level of service and merchandise line. The Making Responsible Decisions box gives examples of the green activities of several retailers.6

Making Responsible Decisions

Sustainability

How Green Is Your Retailer? The Rankings Are Out!

In a recent Nielsen survey of consumers from 60 countries, 55 percent of the respondents said they are willing to pay more for products and services provided by companies that are committed to positive social and environmental impact. In response, many retailers are “going green” and developing comprehensive and sophisticated business practices that reflect a new focus on social and environmental responsibility. The trend has become so important that Newsweek evaluates eight indicators of environmental performance to provide annual “green rankings” of large companies.

Source: Newsweek, LLC

The U.S. Green Retail Association offers guidance for retailers who are getting started at implementing new practices, and also provides a third-party certification that recognizes a commitment to “green” values. Some practices are intuitive and simple, such as encouraging the use of reusable shopping bags, installing LED lighting, and using nontoxic cleaning products. Many retailers are even using recyclable materials for credit and gift cards, rather than plastic. Other practices, such as reducing CO2 emissions with economical delivery vehicles, using rainwater for landscape maintenance, or finding alternative uses for landfill waste require a larger effort. Very often, however, these environmental initiatives also have financial benefits. When Home Depot switched light displays to CFL and LED light bulbs, painted the roofs of stores white, and installed solar panels, it reduced its energy use by 20 percent.

Shopping malls are adopting the practices also. In Syracuse, New York, for example, Destiny USA mall implemented water harvesting, air quality protection, landfill reclamation, and energy conservation practices to become the largest LEED (Leadership in Energy and Environmental Design) certified retail building in the world. Similarly, Walgreens became the first retailer to construct a Net Zero Energy store by using solar panels, wind turbines, daylight harvesting, and energy efficient building materials.

Do sustainability practices such as these influence your purchase decisions? If the answer is yes, you may want to review the green rankings at http://www.newsweek.com/search/site/green. Are your favorite retailers “green”?

Form of Ownership

There are three general forms of retail ownership—independent retailer, corporate chain, and contractual systems.

Independent Retailer

One of the most common forms of retail ownership is the independent business owned by an individual. Independent retailers account for most of the 1.1 million retail establishments in the United States and include hardware stores, convenience stores, clothing stores, and computer and software stores. In addition, there are 26,700 jewelry stores, 18,500 florists, and 22,100 sporting goods and hobby stores. For the independent retailer, the advantage of this form of ownership is simple: The owner is the boss. For customers, the independent store can offer convenience, personal service, and lifestyle compatibility.7

Corporate Chain

R Heyes Design/Alamy

A second form of ownership, the corporate chain, involves multiple outlets under common ownership. Macy’s, Inc., for example, operates 773 Macy’s department stores in 45 states. Macy’s also owns 37 Bloomingdale’s, which compete with other chain stores such as Saks Fifth Avenue and Neiman Marcus. Finally, Macy’s recently acquired Bluemercury, which includes 62 specialty beauty and spa services stores.

In a chain operation, centralization in decision making and purchasing is common. Chain stores have advantages in dealing with manufacturers, particularly as the size of the chain grows. A large chain can bargain with a manufacturer to obtain good service or volume discounts on orders. Target’s large volume makes it a strong negotiator with manufacturers of most products. For consumers, the buying power of chains translates into lower prices compared with other types of stores. Consumers also benefit in dealing with chains because there are multiple outlets with similar merchandise and consistent management policies.

Retailing has become a high-tech business for many large chains. Walmart, for example, has developed a sophisticated inventory management and cost control system Page 439that allows rapid price changes for each product in every store. In addition, stores such as Walmart and Target are implementing pioneering new technologies such as radio frequency identification (RFID) tags to improve the quality of information available about products.

Contractual Systems

Contractual systems involve independently owned stores that band together to act like a chain. Recall that in Chapter 15, we discussed three kinds of contractual vertical marketing systems: retailer-sponsored cooperatives, wholesaler-sponsored voluntary chains, and franchises (see Figure 15–6). One retailer-sponsored cooperative is Associated Grocers, which consists of neighborhood grocers that all agree with several other independent grocers to buy their goods directly from food manufacturers. In this way, members can take advantage of volume discounts commonly available to chains and also give the impression of being a large chain, which may be viewed more favorably by some consumers. Wholesaler-sponsored voluntary chains such as Independent Grocers Alliance (IGA) try to achieve similar benefits.

In a franchise system, an individual or firm (the franchisee) contracts with a parent company (the franchisor) to set up a business or retail outlet. The franchisor usually assists in selecting the location, setting up the store or facility, advertising, and training personnel. The franchisee usually pays a one-time franchise fee and an annual royalty, usually tied to the franchise’s sales. There are two general types of franchises: business-format franchises, such as McDonald’s, 7-Eleven, Subway, and Anytime Fitness and product-distribution franchises, such as a Ford dealership or a Coca-Cola distributor. In business-format franchising, the franchisor provides step-by-step procedures for most aspects of the business and guidelines for the most likely decisions Page 440a franchisee will face. In product-distribution franchising, the franchisor provides a few general guidelines and the franchisee is much more independent.

Anytime Fitness is a popular business-format franchisor.

Roberto Herrett/Alamy

Franchising is attractive because it offers an opportunity for people to enter a well-known, established business for which managerial advice is provided. Also, the franchise fee may be less than the cost of setting up an independent business. The International Franchise Association recently estimated that there are 769,782 franchised businesses in the United States, which generate $845 billion in annual sales and employ more than 8.5 million people. Franchising is popular in international markets also: More than half of all U.S. franchisors have operations in other countries. What is one of the fastest-growing franchises? Subway now has 42,227 locations, including 15,610 stores outside the United States.8

Franchise fees paid to the franchisor can range from $15,000 for a Subway franchise to $45,000 for a McDonald’s restaurant franchise. When the fees are combined with other costs such as real estate and equipment, however, the total investment can be much higher. Franchisees also pay an ongoing royalty fee that ranges from 5 percent for a Papa John’s pizza franchise to 30 percent for an H&R Block tax preparation franchise. Figure 16–3 shows the top five franchises, as rated by Entrepreneur magazine, based on factors such as size, financial strength, stability, years in business, and costs. By selling franchises, an organization reduces the cost of expansion but loses some control. A good franchisor, however, will maintain strong control of the outlets in terms of delivery and presentation of merchandise and try to enhance recognition of the franchise name.9

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Franchise Type of Business Total Start-up Cost Number of Franchises

Hampton Hotels Hotels $4,000,000–$14,000,000 1,964

Anytime Fitness Fitness centers $79,000–$371,000 2,839

Subway Sandwiches $117,000–$263,000 42,227

Jack in the Box Hamburgers $1,000,000–$2,000,000 2,251

Supercuts Hair salons $114,000–$243,000 2,469 \*\*\*

Figure 16–3 The top five franchises in the United States vary from hotels to hair salons.

Level of Service

Although most customers have little reason to notice form of ownership differences among retailers, they are typically aware of differences in terms of level of service. In some department stores, such as Loehmann’s, very few services are provided. Some grocery stores, such as the Cub Foods chain, encourage customers to bag their groceries themselves. In contrast, outlets such as Neiman Marcus provide a wide range of customer services, from gift wrapping to wardrobe consultation.

Self-Service

Redbox provides a service without clerks.

Ross Dettman/AP Images

Self-service requires that customers perform many functions during the purchase process. Warehouse clubs such as Costco, for example, are usually self-service, with all nonessential customer services eliminated. Many gas stations, supermarkets, and airlines today also have self-service lanes and terminals. Video retailer Redbox has 35,000 kiosks throughout the United States—and operates without a single clerk. New forms of self-service are being developed at convenience stores, Page 441fast-food restaurants, and even coffee shops! Shop24 offers self-service, automated convenience stores in more than 200 international locations and is expanding into the college and university market. At Zipcar you sign up, receive a Zipcard, book online, walk to a car, scan your card across a reader on the windshield to open the doors, and drive away! In general, the trend is toward retailing experiences that make customers co-creators of the value they receive. A recent survey showed that airline terminals with automated kiosks reduce the wait time for travelers by 22 percent.10

Limited Service

Limited-service outlets provide some services, such as credit and merchandise return, but not others, such as clothing alterations. General merchandise stores such as Walmart, Kmart, and Target are usually considered limited service outlets. Customers are responsible for most shopping activities, although salespeople are available in departments such as consumer electronics, jewelry, and lawn and garden.

Full Service

Full-service retailers, which include most specialty stores and department stores, provide many services to their customers. Neiman Marcus, Nordstrom, and Saks Fifth Avenue, for example, all rely on better service to sell more distinctive, higher-margin goods and to retain their customers. Nordstrom offers a wide variety of services, including on-site alterations and tailoring; free exchanges and easy returns; gift cards; credit cards through Nordstrom Bank; a 7-days-a-week customer service line; a live chat line with beauty, design, and wedding specialists; online shopping with in-store pickup; catalogs; and a four-level loyalty program called Nordstrom Rewards. During the next few years the company plans to spend $4.3 billion on additional services and improvements such as an in-store return capability for online purchases, personalized offers to rewards program members, and “smart” fitting rooms.11

Type of Merchandise Line

Retail outlets also vary by their merchandise lines, the key distinction being the breadth and depth of the items offered to customers (see Figure 16–4). Depth of product line means the store carries a large assortment of each item, such as a shoe store that offers running shoes, dress shoes, and children’s shoes. Breadth of product line refers to the variety of different items a store carries, such as appliances and books.

Figure 16–4 Stores vary in terms of the breadth and depth of their merchandise lines.

Depth of Line

Stores that carry a considerable assortment (depth) of a related line of items are limited-line stores. Sports Authority sporting goods stores carry considerable depth in sports equipment ranging from weight-lifting accessories to running shoes. Stores that carry tremendous depth in one primary line of merchandise are single-line stores. Victoria’s Secret, a nationwide chain, carries great depth in women’s lingerie. Both limited- and single-line stores are often referred to as specialty outlets.

Staples is the category killer in office supplies because it dominates the market in that category.

McGraw-Hill Education/Editorial Image, LLC, photographer

Specialty discount outlets focus on one type of product, such as electronics (Best Buy), office supplies (Staples), or books (Barnes & Noble), at very competitive prices. These outlets are referred to in the trade as category killers because they often dominate the market. Best Buy, for example, is the largest consumer electronics retailer Page 442with more than 1,650 stores, Staples operates more than 1,900 office supply stores, and Barnes & Noble is the largest book retailer. Interesting trends in this form of retailing include a shift to smaller stores, such as Best Buy Mobile stores, and the use of price matching to compete with online retailers.12

Breadth of Line

Stores that carry a broad product line, with limited depth, are referred to as general merchandise stores. For example, large department stores such as Dillard’s, Macy’s, and Neiman Marcus carry a wide range of different types of products but not unusual sizes. The breadth and depth of merchandise lines are important decisions for a retailer. Traditionally, outlets carried related lines of goods. Today, however, scrambled merchandising, offering several unrelated product lines in a single store, is common. For example, the modern drugstore carries food, camera equipment, magazines, paper products, toys, small hardware items, and pharmaceuticals. Supermarkets sell flowers and videos and print photos, in addition to selling groceries.

A form of scrambled merchandising, the hypermarket, has been successful in Europe. Hypermarkets are large stores (often more than 200,000 square feet) based on a simple concept: Offer “everything under one roof,” thus eliminating the need to stop at more than one location. These stores provide variety, quality, and low prices for groceries and general merchandise items. Carrefour, one of the largest retailers in this category, has 1,459 hypermarkets, including 237 in France, 489 in the rest of Europe, 291 in Latin America, and 375 in Asia. The growth of hypermarkets may be slowing in Europe, however, as consumers’ interest in smaller stores and convenient locations has increased. In response, retailers have been cutting prices on food to attract customers and lure them away from competitors. Despite its declining popularity in some parts of the world, the original hypermarket concept is still growing in popularity in many countries; in China, for example, Carrefour, Tesco, and Walmart are expanding the number of stores they operate.13

VIDEO 16-3

Walmart

kerin.tv/13e/v16-3

In the United States, retailers have discovered that shoppers are uncomfortable with the huge size of hypermarkets. In response, they have developed a variation of the hypermarket called the supercenter, which combines a typical merchandise store with a full-size grocery store. Walmart, Kmart, and Target now use this concept at 3,427 Walmart Supercenters, 11 Kmart Supercenters, and more than 249 SuperTarget stores. Due to the increasing popularity of online retailers, however, the large size of these supercenters is no longer a certain advantage; Amazon.com, for example, is able to offer an even larger selection than these huge stores. Also, due to modern supply chain management techniques, smaller retailers are now able to keep shelves stocked without a lot of inventory. As customer interest shifts, retailers are modifying the supercenter concept to accommodate consumers’ interest in smaller, more convenient stores. Walmart, for example, is expanding the number of its grocery stores, Walmart Neighborhood Markets. Figure 16–5 shows the differences between the supercenter and hypermarket concepts.14

Figure 16–5 Hypermarkets are popular in Europe, and supercenters are popular in the United States.

Scrambled merchandising is convenient for consumers because it eliminates the number of stops required in a shopping trip. However, for the retailer this merchandising policy means there is competition between very dissimilar types of retail outlets, or intertype competition. A local bakery may compete with a department store, discount outlet, or even a local gas station. Scrambled merchandising and intertype competition make it more difficult to be a retailer.

Page 443

learning review

16-3. Centralized decision making and purchasing are an advantage of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ownership.

16-4. What are some examples of new forms of self-service retailers?

16-5. A shop for big men’s clothes carries pants in sizes 40 to 60. Would this be considered a broad or a deep product line?

NONSTORE RETAILING

LO 16-3

Describe the many methods of nonstore retailing.

Most of the retailing examples discussed thus far in the chapter, such as corporate chains, department stores, and limited- and single-line specialty stores, involve store retailing. Many retailing activities today, however, are not limited to sales in a store. Nonstore retailing occurs outside a retail outlet through activities that involve varying levels of customer and retailer involvement. Figure 16–6 shows six forms of nonstore retailing: automatic vending, direct mail and catalogs, television home shopping, online retailing, telemarketing, and direct selling.

Figure 16–6 Many retailing activities do not involve a store. How many forms of nonstore retailing have you used?

Automatic Vending

Nonstore retailing includes vending machines, or v-commerce, which make it possible to serve customers when and where stores cannot. Machine maintenance, operating costs, and location leases can add to the cost of the products, so prices in vending machines are often higher than those in stores. About 34 percent of the products sold from vending machines are cold beverages, another 28 percent are candy and snacks, and 7 percent are food. Many new types of products are quickly becoming available in vending machines. Best Buy now uses vending machines to sell mobile phone and computer accessories, digital cameras, flash drives, and other consumer electronics products in airports, hospitals, and businesses. Similarly, HealthyYou Vending manufactures machines designed to distribute healthy drinks, snacks, and entrées in offices, Page 444health clubs, hospitals, schools, and colleges. The 4.8 million vending machines currently in use in the United States generate more than $19.5 billion in annual sales.15

Vending machines offer a variety of products. Which types of products are most common in a vending machine? For the answer, see the text.

Source: HealthyYOU® Vending

Improved technology is making vending easier to use. Many vending machines now have touchscreens and credit card readers. In addition, some vending machine companies are testing wireless technology to allow consumers to make vending machine purchases using their mobile phones. Wireless technology is also being used by companies to monitor sales; this information is used to schedule trips to restock machines when items are sold out. Another improvement in vending machines is the trend toward “green” machines, which consume less energy by using more efficient compressors, more efficient lighting, and better insulation. Vending machines are popular with consumers; recent consumer satisfaction research indicates that 82 percent of consumers believe purchasing from a vending machine is equal to or superior to a store purchase. For today’s consumers, vending machines represent an extension of brands that are already available in stores, through catalogs, and online.16

Direct Mail and Catalogs

VIDEO 16-4

IKEA

kerin.tv/13e/v16-4

Direct-mail and catalog retailing has been called “the store that comes to the door.” It is attractive for several reasons. First, it can eliminate the cost of a store and clerks. Dell, for example, is one of the largest computer and information technology retailers, and it does not have any stores. Second, direct mail and catalogs improve marketing efficiency through segmentation and targeting, and they create customer value by providing a fast and convenient means of making a purchase. Finally, many catalogs now serve as a tool to encourage consumers to visit a website, a social media page, or even a store. Online retailers such as Zappos, Amazon, and eBay, for example, now offer catalogs. The average U.S. household today receives 24 direct-mail items or catalogs each week. The Direct Marketing Association estimates that direct-mail and catalog retailing creates $642 billion in sales. Direct-mail and catalog retailing is popular outside the United States, also. Furniture retailer IKEA delivered 217 million copies of its catalog in 32 languages last year.17

Specialty catalogs appeal to market niches. They create value by providing a fast and convenient way to shop.

Sources: Left: Inter IKEA Systems B.V.; Middle: Crate and Barrel; Right: L.L.Bean Inc.

Several factors have had an impact on direct-mail and catalog retailing in recent years. The influence of large retailers such as IKEA, Crate and Barrel, L.L.Bean, and others has been positive as their marketing activities have increased the number and variety of products consumers purchase through direct mail and catalogs. Higher paper costs and increases in postage rates, the growing interest in do-not-mail legislation, the concern for “green” mailings and catalogs, and the possibility of the U.S. Postal Service reducing delivery to five days, however, have caused direct-mail and catalog retailers to Page 445search for ways to provide additional customer value. One approach has been to focus on proven customers rather than prospective customers. Some merchants, such as Williams-Sonoma, reduce mailings to zip codes that have not been profitable. Another successful approach used by many catalog retailers is to send specialty catalogs to market niches identified in their databases. L.L.Bean, for example, has developed an individual catalog for fly-fishing enthusiasts.18

New, creative forms of direct-mail and catalog retailing are also being developed. For example, retailers are creating digital versions of catalogs, which can be accessed through catalog-aggregating apps such as Google Catalogs. In the future, you will also see merchants using direct mail and catalogs to direct customers to personalized URLs (PURLs), such as www.JohnSmith.offer.com, which are web pages preloaded with information and offerings specific to an individual.19

Television Home Shopping

Television home shopping is possible when consumers watch a shopping channel on which products are displayed; orders are then placed over the telephone or the Internet. Currently, the three largest programs are QVC, HSN, and ShopNBC. QVC (“quality, value, convenience”) broadcasts live 24 hours each day, 364 days a year, and reaches 198 million cable and satellite homes in the United States, United Kingdom, Germany, Japan, and Italy. The company generates sales of $8.8 billion from its 60 million customers by offering more than 1,000 products each week. The television home shopping channels offer apparel, jewelry, cooking, home improvement products, electronics, toys, and even food. Of all these products, the best-selling item ever was a Dell personal computer.20

Television home shopping programs serve millions of customers each year. See the text to learn how they are attracting new customers.

Rick Diamond/Getty Images for Webster PR

In the past, television home shopping programs attracted mostly 40- to 60-year-old women. To attract a younger audience, QVC has invited celebrities onto the show. For example, Heidi Klum has been on the show promoting her jewelry collection, and Kim, Khloe, and Kourtney Kardashian have been hosts selling their apparel line. Singer Dolly Parton recently appeared on the show to sell her newest album. Broadcasting events such as the Red Carpet Style show at the Four Seasons Hotel in Beverly Hills also helps attract new customers. In addition, QVC supports its television program with retail stores, a website, mobile apps, text alerts, and online chats during programming. Similarly, Home Shopping Network now offers a multiplatform shopping experience. Some experts suggest that television shopping programs are becoming a modern version of door-to-door retailing by combining elements of reality TV programs, talk shows, and infomercials.21

Online Retailing

Online retailing allows consumers to search for, evaluate, and order products through the Internet. For many consumers, the advantages of this form of retailing are the 24-hour access, the ability to comparison shop, in-home privacy, and variety. Early studies of online shoppers indicated that men were initially more likely than women to buy something online. As the number of online households has increased, however, the profile of online shoppers has changed to include all shoppers.

Shopping “bots” like mysimon.com find the best prices for products specified by consumers. Read the text to learn more!

Source: CBS Interactive Inc.

Today, traditional and online retailers—“bricks and clicks”—are melding, using experiences from both approaches to create better value and experiences for customers. For example, Walmart (www.walmart.com) offers its Site-to-Store service that allows customers to place an order online and pick it up at a Walmart store. In addition, Walmart now offers its HomeFree option, which provides free shipping to customers’ homes when they order $50 or more of selected items. The Walmart Mobile app allows shoppers to order products using their smartphones Page 446and tablets. Two of the biggest days for online retailing are the Friday after Thanksgiving—Black Friday—and the Monday after Thanksgiving—Cyber Monday—which generated $2.4 billion and $2.6 billion in online sales, respectively. Online sales account for approximately 6.5 percent of all retail sales and are expected to reach $500 billion in 2018.22

Online retail purchases can be the result of several very different approaches. First, consumers can pay dues to become a member of an online discount service such as www.netmarket.com. The service offers thousands of products and hundreds of brand names at very low prices to its subscribers. Another approach to online retailing is to use a shopping “bot” such as www.mysimon.com. This site searches the Internet for a product specified by the consumer and provides a report listing retailers with the best prices. Consumers can also use the Internet to go directly to online malls (www.fashionmall.com), apparel retailers (www.gap.com), bookstores (www.amazon.com), computer manufacturers (www.dell.com), grocery stores (www.peapod.com), music and video stores (www.tower.com), and travel agencies (www.travelocity.com). Another approach is the online auction such as www.ebay.com, where 157 million buyers and 25 million sellers trade “practically anything.”23 A final approach to online retailing is “flash sales” at sites such as www.gilt.com and www.hautelook.com which will send you text messages announcing limited-time offers at big discounts.24

One of the biggest problems online retailers face is that nearly two-thirds of online shoppers make it to “checkout” and then leave the website to compare shipping costs and prices on other sites. Of the shoppers who leave, 70 percent do not return. One way online retailers are addressing this issue is to offer consumers a comparison of competitors’ offerings. At Allbookstores.com, for example, consumers can use a “comparison engine” to compare prices with Amazon.com, Barnesandnoble.com, and as many as 25 other bookstores. Experts suggest that online retailers should think of their websites as dynamic billboards if they are to attract and retain customers, and they should be easy to use, customizable, and facilitate interaction to enhance the online customer experience.25 For example, BMW, Mercedes, and Jaguar encourage website visitors to “build” a vehicle by selecting interior and exterior colors, packages, and options; view the customized virtual car; and then use Facebook, Twitter, or e-mail to share the configuration.

Online retailing is also evolving to include social shopping options, including: intermediaries, such as Groupon and LivingSocial, that match consumers with merchants; marketplaces, such as Google Offer and Storenvy, that provide a self-service advertising site; and aggregators, such as Yipit, that crawl the Web to find deals to list on their own site. Many consumers also use online resources as price comparison sites that influence their offline shopping at local stores.26

Telemarketing

Another form of nonstore retailing, called telemarketing, involves using the telephone to interact with and sell directly to consumers. Compared with direct mail, telemarketing is often viewed as a more efficient means of targeting consumers. Insurance companies, brokerage firms, and newspapers have often used this form of retailing as a way to cut costs but still maintain access to their customers. According to the Direct Marketing Association, annual telemarketing sales exceed $332 billion.27

The telemarketing industry has recently gone through dramatic changes as a result of new legislation related to telephone solicitations. Issues such as consumer privacy, industry standards, and ethical guidelines have encouraged discussion among consumers, Congress, the Federal Trade Commission, and businesses. As a result, legislation created the National Page 447Do Not Call Registry (www.donotcall.gov) for consumers who do not want to receive telephone calls related to company sales efforts. Currently, there are more than 221 million phone numbers on the registry. Companies that use telemarketing have already adapted by adding compliance software to ensure that numbers on the list are not called.28

Direct Selling

McGraw-Hill Education, Mark A. Dierker, photographer

Direct selling, sometimes called door-to-door retailing, involves direct sales of products and services to consumers through personal interactions and demonstrations in their home or office. A variety of companies, including familiar names such as Avon, Fuller Brush, Mary Kay Cosmetics, and World Book, have created an industry with more than $31 billion in U.S. sales by providing consumers with personalized service and convenience. In the United States, there are more than 15 million direct salespeople working full time and part time in a variety of product categories, including wellness, home durables, and personal care.29

Growth in the direct-selling industry is the result of two trends. First, many direct-selling retailers are expanding into markets outside the United States. Avon, for example, has 6 million sales representatives in 80 countries. More than one-third of Amway’s $11.8 billion in sales now comes from China and 90 percent comes from outside the United States. Similarly, other retailers such as Herbalife and Electrolux are rapidly expanding into new markets.30 Direct selling is likely to continue to grow in markets where the lack of effective distribution channels increases the importance of door-to-door convenience and where the lack of consumer knowledge about products and brands increases the need for a person-to-person approach.

The second trend is the growing number of companies that are using direct selling to reach consumers who prefer one-on-one customer service and a social shopping experience rather than online shopping or big discount stores. The Direct Selling Association reports that the number of companies using direct selling is increasing. Pampered Chef, for example, has 60,000 independent sales reps who sell the company’s products at in-home “Cooking Shows.” Interest among potential sales representatives grew during the recent economic downturn as people sought independence and control of their work activities.31

learning review

16-6. Successful catalog retailers often send \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ catalogs to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ markets identified in their databases.

16-7. How are retailers increasing consumer interest and involvement in online retailing?

16-8. Where are direct-selling retail sales growing? Why?

RETAILING STRATEGY

This section describes how a retailer develops and implements a retailing strategy. Research suggests that factors related to market and competitor characteristics may influence strategic choices and that the combination of choices is an important consideration for retailers.32 Figure 16–7 identifies the relationship between strategy, positioning, and the retailing mix.

Figure 16–7 Retailing strategy is related to store positioning and the retailing mix. Note the similarity between the retailing mix and the marketing mix.

Positioning a Retail Store

LO 16-4

Classify retailers in terms of the retail positioning matrix, and specify retailing mix actions.

The classification alternatives presented in the previous sections help determine one store’s position relative to its competitors. The retail positioning matrix is a matrix Page 448developed by the MAC Group, Inc., a management consulting firm.33 This matrix positions retail outlets on two dimensions: breadth of product line and value added. As defined previously, breadth of product line is the range of products sold through each outlet. The second dimension, value added, includes elements such as location (as with 7-Eleven stores), product reliability (as with Holiday Inn or McDonald’s), or prestige (as with Saks Fifth Avenue or Brooks Brothers).

The retail positioning matrix in Figure 16–8 shows four possible positions. An organization can be successful in any position, but unique strategies are required within each quadrant. Consider the four retailers shown in the matrix:

Bloomingdale’s has high value added and a broad product line. Retailers in this quadrant pay great attention to store design and product lines. Merchandise often has a high margin of profit and is of high quality. The stores in this position typically provide high levels of service.

Page 449Walmart has low value added and a broad line. Walmart and similar firms typically trade a lower price for increased volume in sales. Retailers in this position focus on price with low service levels and an image of being a place for bargains.

Tiffany & Co. has high value added and a narrow line. Retailers of this type typically sell a very restricted range of products that are high in status and quality. Customers are also provided with high levels of service.

Payless ShoeSource has low value added and a narrow line. For example, it carries athletic shoes at a discount. Economies of scale are achieved through centralized advertising, merchandising, buying, and distribution. Stores are usually the same in design, layout, and merchandise; hence they are often referred to as “cookie-cutter” stores.

Figure 16–8 Positioning strategies for retailers are based on breadth of product line and value added.

Walmart: Frederic J. Brown/AFP/Getty Images; Bloomingdale’s: Richard Levine/Alamy; Tiffany & Co: Ethan Miller/Getty Images; Payless ShoeSource: Philip Scalia/Alamy

Retailing Mix

In developing a retailing strategy, managers work with the retailing mix, which includes activities related to managing the store and the merchandise in the store. The retailing mix is similar to the marketing mix and includes retail pricing, store location, retail communication, and merchandise (see Figure 16–7).

Retail Pricing

In setting prices for merchandise, retailers must decide on the markup, markdown, and timing for markdowns. As mentioned in Appendix B (following Chapter 14), the markup refers to how much should be added to the cost the retailer paid for a product to reach the final selling price. Retailers decide on the original markup, but by the time the product is sold, they end up with a maintained markup. The original markup is the difference between retailer cost and initial selling price. When products do not sell as quickly as anticipated, their price is reduced. The difference between the final selling price and retailer cost is the maintained markup, which is also called the gross margin.

Discounting a product, or taking a markdown, occurs when the product does not sell at the original price and an adjustment is necessary. Often new models or styles force the price of existing models to be marked down. Discounts may also be used to increase demand for complementary products.34 For example, retailers might take a markdown on the price of cake mix to generate frosting purchases.

The timing of a markdown can be important. Many retailers take a markdown as soon as sales fall off to free up valuable selling space and cash. However, other stores delay markdowns to discourage bargain hunters and maintain an image of quality. There is no clear answer, but retailers must consider how the timing might affect future sales. Research indicates that frequent promotions increase consumers’ ability to remember regular prices.35

Ian Dagnall/Alamy

Although most retailers plan markdowns, many retailers use price discounts as part of their regular merchandising policy. Walmart and Home Depot, for example, emphasize consistently low prices and eliminate most markdowns with a strategy often called everyday low pricing (EDLP).36 Because consumers often use price as an indicator of product quality, however, the brand name of the product and the image of the store become important decision factors in these situations.37 Another strategy, everyday fair pricing, is advocated by retailers that may not offer the lowest price but try to create value for customers through service and the total buying experience.38 Consumers often use the prices of benchmark or signpost items, such as a can of Coke, to form an overall impression of a store’s prices.39 In addition, price is the most likely factor to influence consumers’ assessment of merchandise value.40 When store prices are based on rebates, retailers must be careful to avoid negative consumer perceptions if the rebate processing time is long (e.g., six weeks).41

A special issue for retailers trying to keep prices low is shrinkage, or breakage, theft, and fraud by customers and employees. The National Retail Federation estimates that the average retailer loses 1.4 percent of sales to shrinkage each year, totaling Page 450approximately $34 billion. Fraudulent returns alone account for close to $9 billion. About 44 percent of retail shrinkage is due to employee theft. Some retailers have noticed an increase in theft and fraud as economic conditions have declined. In general, the issue has increased retailers’ interest in new technical and surveillance techniques designed to detect and reduce shrinkage.42

At off-price retail stores like T.J. Maxx, prices are low but selection may be unpredictable.

Tim Boyle/Bloomberg via Getty Images

Off-price retailing is a retail pricing practice that is used by retailers such as T.J. Maxx, Burlington Coat Factory, and Ross Stores. Off-price retailing involves selling brand-name merchandise at lower than regular prices. The difference between the off-price retailer and a discount store is that off-price merchandise is bought by the retailer from manufacturers with excess inventory at prices below wholesale prices. The discounter, however, buys at full wholesale prices but takes less of a markup than traditional department stores. Because of this difference in the way merchandise is purchased by the retailer, selection at an off-price retailer is unpredictable, and searching for bargains has become a popular activity for many consumers. “It’s more like a sport than it is like ordinary shopping,” says Christopher Boring of Columbus, Ohio’s Retail Planning Associates.43 Savings to the consumer at off-price retailers are reportedly as high as 70 percent off the prices of a traditional department store.

There are several variations of off-price retailing. One is the warehouse club. These large stores (100,000 to 140,000 square feet) are rather stark outlets that typically lack elaborate displays, customer service, or home delivery. Warehouse clubs require an annual membership fee (ranging from $30 to $100) for the privilege of shopping there. While a typical Walmart stocks 30,000 to 60,000 items, warehouse clubs carry 4,000 to 8,000 items and usually stock just one brand of appliance or food product. Service is minimal, and customers usually pay by cash or check. Customers are attracted by the ultra-low prices and surprise deals on selected merchandise, although several of the clubs have recently started to add ancillary services such as optical shops and pharmacies to differentiate themselves from competitors. The major warehouse clubs in the United States include Walmart’s Sam’s Club, BJ’s Wholesale Club, and Costco’s Warehouse Club. Sales of these off-price retailers have grown to approximately $410 billion annually.44

Off 5th provides an outlet for excess merchandise from Saks Fifth Avenue.

Paul Sakuma/AP Images

A second variation is the outlet store. Factory outlets, such as Van Heusen Factory Store, Bass Shoe Outlet, and Gap Factory Store, offer products for 25 to 75 percent off the suggested retail price. Manufacturers use the stores to clear excess merchandise and to reach consumers who focus on value shopping. Retail outlets such as Nordstrom Rack and Off 5th (an outlet for Saks Fifth Avenue) allow retailers to sell excess merchandise and still maintain an image of offering merchandise at full price in their primary store. Increasingly, retailers are offering merchandise made expressly for the outlet division. The recessionary economic climate has increased demand for this type of off-price retailing, and many retailers have responded by opening more outlet stores. For example, Bloomingdale’s recently opened its first outlets. According to Michael Gould, Bloomingdale’s CEO, “Outlets deliver a compelling combination of fashion, quality, and value.”45

A third variation of off-price retailing is offered by single-price, or extreme value, retailers such as Family Dollar, Dollar General, and Dollar Tree. These stores average about 6,000 square feet in size and attract customers who want value and a “corner store” environment rather than a large supercenter experience. Some experts predict extraordinary growth of these types of retailers. Dollar General, for example, already has 11,800 stores in 43 states and plans to open more.46

Store Location

A second aspect of the retailing mix involves choosing a location and deciding how many stores to operate. Department stores, which started downtown Page 451in most cities, have followed customers to the suburbs, and in recent years more stores have been opened in large regional malls. Most stores today are near several others in one of five settings: the central business district, the regional center, the community shopping center, the strip mall, or the power center.

The central business district is the oldest retail setting, the community’s downtown area. Until the regional outflow to suburbs, it was the major shopping area, but the suburban population has grown at the expense of the downtown shopping area. Consumers often view central business district shopping as less convenient because of lack of parking, higher crime rates, and exposure to the weather. Many cities such as Louisville, Denver, and San Antonio have implemented plans to revitalize shopping in central business districts by attracting new offices, entertainment, and residents to downtown locations.

Stars and Stripes/Alamy

Regional shopping centers consist of 50 to 150 stores that typically attract customers who live or work within a 5- to 10-mile range. These large shopping areas often contain two or three anchor stores, which are well-known national or regional stores such as Sears, Saks Fifth Avenue, and Bloomingdale’s. The largest variation of a regional center in North America is the West Edmonton Mall in Alberta, Canada. This shopping center is a conglomerate of more than 800 stores, the world’s largest indoor amusement park, more than 100 restaurants, a movie complex, and two hotels, all of which attract 30 million visitors each year.47

A more limited approach to retail location is the community shopping center, which typically has one primary store (usually a department store branch) and often about 20 to 40 smaller outlets. Generally, these centers serve a population of consumers who are within a 10- to 20-minute drive.

Not every suburban store is located in a shopping mall. Many neighborhoods have clusters of stores, referred to as a strip mall, to serve people who are within a 5- to 10-minute drive. Gas station, hardware, laundry, grocery, and pharmacy outlets are commonly found in a strip mall. Unlike the larger shopping centers, the composition of these stores is usually unplanned. A variation of the strip mall is called the power center, which is a huge shopping strip with multiple anchor (or national) stores such as Home Depot, Best Buy, or JCPenney. Power centers combine the convenience of location provided by strip malls with the power of national stores. These large strip malls often have two to five anchor stores and contain a supermarket, which brings the shopper to the power center on a weekly basis.48

Retail Communication

A retailer’s communication activities can play an important role in positioning a store and creating its image. While the typical elements of communication and promotion are discussed in Chapter 18 on advertising, sales promotion, and public relations, Chapter 19 on social media, and Chapter 20 on personal selling, the message communicated by the many other elements of the retailing mix is also important.

Deciding on the image of a retail outlet is an important retailing mix factor that has been widely recognized and studied since the late 1950s. Pierre Martineau described image as “the way in which the store is defined in the shopper’s mind,” partly by its functional qualities and partly by an aura of psychological attributes.49 In this definition, functional refers to mix elements such as price ranges, store layouts, and breadth and depth of merchandise lines. The psychological attributes are the intangibles such as a sense of belonging, excitement, style, or warmth. Image has been found to include impressions of the corporation that operates the store, the category or type of store, the product categories in the store, the brands in each category, merchandise and service quality, and the marketing activities of the store.50

Closely related to the concept of image is the store’s atmosphere, or ambience. Many retailers believe that sales are affected by layout, color, lighting, music, scent,51 and other elements of the retail environment. This concept leads many retailers to use shopper marketing—the use of displays, coupons, product samples, and Page 452other brand communications to influence shopping behavior in a store. Shopper marketing can also influence behavior in an online shopping environment and when shoppers use smartphone apps to identify shopping needs or make purchase decisions.52 In creating the right image and atmosphere, a retail store tries to attract a target audience and fortify beliefs about the store, its products, and the shopping experience in the store. While store image perceptions can exist independently of shopping experiences, consumers’ shopping experiences influence their perceptions of a store.53 In addition, the physical surroundings of the retail environment influence a store’s employees.54

Merchandise

The final element of the retailing mix is the merchandise offering. Managing the breadth and depth of the product line requires retail buyers who are Page 453familiar with both the needs of the target market and the alternative products available from the many manufacturers that might be interested in having a product available in the store. A popular approach to managing the assortment of merchandise today is called category management. This approach assigns a manager the responsibility for selecting all products that consumers in a market segment might view as substitutes for each other, with the objective of maximizing sales and profits in the category. For example, a category manager might be responsible for shoes in a department store or paper products in a grocery store. As such, he or she would consider trade deals, order costs, and the between-brand effects of price range changes to determine brand assortment, order quantities, and prices.55

Retailers have a variety of marketing metrics that can be used to assess the effectiveness of a store or retail format. First, there are measures related to customers such as the number of transactions per customer, the average transaction size per customer, the number of customers per day or per hour, and the average length of a store visit. Second, there are measures related to the stores and the products such as level of inventory, number of returns, inventory turnover, inventory carrying cost, and average number of items per transaction. Finally, there are financial measures, such as gross margin, sales per employee, return on sales, and markdown percentage.56 The two most popular measures for retailers are sales per square foot and same-store sales growth. The Applying Marketing Metrics box describes the calculation of these measures for Apple Stores.57

Applying Marketing Metrics

Why Apple Stores May Be the Best in the United States!

How effective is my retail format compared to other stores? How are my stores performing this year compared to last year? Information related to these questions is often displayed in a marketing dashboard using two measures: (1) sales per square foot and (2) same-store sales growth.

Your Challenge

You have been assigned to evaluate the Apple Store retail format. The store’s simple, inviting, and open atmosphere has been the topic of discussion among many retailers. To allow an assessment of Apple Stores, use sales per square foot as an indicator of how effectively retail space is used to generate revenue and same-store sales growth to compare the increase in sales of stores that have been open for the same period of time. The calculations for these two indicators are:

Sales per square foot

=

Total sales

Selling area in square feet

Same-store sales growth

=

Store sales in year 2

−

Store sales in year 1

Store sales in year 1

Your Findings

You decide to collect sales information for Target, Neiman Marcus, Best Buy, Tiffany, and Apple Stores to allow comparisons with other successful retailers. The information you collect allows the calculation of sales per square foot and same-store growth for each store. The results are then easy to compare in the graphs below.

Your Action

The results of your investigation indicate that Apple Stores’ sales per square foot are higher than any of the comparison stores at $4,798. In addition, Apple’s same-store growth rate of 22 percent is higher than all of the other retailers. You conclude that the elements of Apple’s format are very effective and even indicate that Apple may currently be the best retailer in the United States.

learning review

16-9. What are the two dimensions of the retail positioning matrix?

16-10. How does original markup differ from maintained markup?

16-11. A huge shopping strip mall with multiple anchor stores is a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ center.

THE CHANGING NATURE OF RETAILING

LO 16-5

Explain changes in retailing with the wheel of retailing and the retail life-cycle concepts.

Retailing is the most dynamic aspect of a channel of distribution. New types of retailers are always entering the market, searching for a new position that will attract customers. The reason for this continual change is explained by two concepts: the wheel of retailing and the retail life cycle.

The Wheel of Retailing

The wheel of retailing describes how new forms of retail outlets enter the market.58 Usually they enter as low-status, low-margin stores such as a drive-in hamburger stand with no indoor seating and a limited menu (Figure 16–9, box 1). Gradually these outlets add fixtures and more embellishments to their stores (in-store seating, plants, and chicken sandwiches as well as hamburgers) to increase the attractiveness for customers. With these additions, prices and status rise (box 2). As time passes, these outlets add still more services and their prices and status increase even further (box 3). These retail outlets now face some new form of retail outlet that again appears as a low-status, low-margin operator (box 4), and the wheel of retailing turns as the cycle starts to repeat itself.

Figure 16–9 The wheel of retailing describes how retail outlets change over time. Read the text to find out the position of McDonald’s and Checkers on the wheel of retailing.

VIDEO 16-5

McDonald’s

kerin.tv/13e/v16-5

When Ray Kroc bought McDonald’s in 1955, it opened shortly before lunch and closed just after dinner, and it offered a limited menu for the two meals without any inside seating for customers. Over time, the wheel of retailing has led to new products Page 454and services. In 1975, McDonald’s introduced the Egg McMuffin and turned breakfast into a fast-food meal. Today, McDonald’s offers an extensive menu, including oatmeal and premium coffee, and it provides seating and services such as wireless Internet connections and kid-friendly PlayPlaces. For the future, McDonald’s is testing new food products including cakes and pastries, all-day breakfast, antibiotic-free chicken, and a “Create Your Taste” option, which allows consumers to select their own toppings for a gourmet burger, and new services such as touch screen kiosks and even a bicycle drive-thru.59

Outlets such as Checkers enter the wheel of retailing as low-status, low-margin stores.

McGraw-Hill Education/Mark Dierker, photographer

These changes are leaving room for new forms of outlets such as Checkers Drive-In Restaurants. The Checkers chain opened fast-food stores that offered only basics—burgers, fries, and cola, a drive-thru window, and no inside seating—and now has more than 800 stores. The wheel is turning for other outlets, too—Boston Market has added pickup, delivery, and full-service catering to its original restaurant format, and it also provides Boston Market meal solutions through supermarket delis and Boston Market frozen meals in the frozen food sections of groceries. For still others, the wheel has come full circle. Taco Bell is now opening small, limited-offering outlets in gas stations, discount stores, or “wherever a burrito and a mouth might possibly intersect.”60

The wheel of retailing is also evident in retail outlets outside the restaurant industry. Discount stores were a major new retailing form in the 1960s and priced their products below those of department stores. As prices in discount stores rose in the 1980s, they found themselves overpriced compared with a new form of retail outlet—the warehouse club. Today, off-price retailers and factory outlets are offering prices even lower than warehouse clubs.

The Retail Life Cycle

The process of growth and decline that retail outlets, like products, experience is described by the retail life cycle.61 Figure 16–10 below shows the stages of the retail life cycle and where various forms of retail outlets are currently positioned along its spectrum. Early growth is the stage of emergence of a retail outlet, with a sharp departure from existing competition. Market share rises gradually, although profits may be low Page 455because of start-up costs. In the next stage, accelerated development, both market share and profit achieve their greatest growth rates. Usually multiple outlets are established as companies focus on the distribution element of the retailing mix. In this stage, some later competitors may enter. Wendy’s, for example, appeared on the hamburger chain scene almost 20 years after McDonald’s had begun operation. The key goal for the retailer in this stage is to establish a dominant position in the fight for market share.

Figure 16–10 The retail life cycle describes stages of growth and decline for retail outlets.

The battle for market share is usually fought before the maturity stage, and some competitors drop out of the market. In the war among hamburger chains, Jack in the Box, Gino’s Hamburgers, and Burger Chef used to be more dominant outlets. In the maturity stage, new retail forms enter the market (such as Fatburger and In-N-Out Burger in the hamburger chain industry), stores try to maintain their market share, and price discounting occurs.

The challenge facing retailers is to delay entering the decline stage, in which market share and profit fall rapidly. Specialty apparel retailers, such as the Gap, Limited, Benetton, and Ann Taylor, have noticed a decline in market share after years of growth. To prevent further decline, these retailers will need to find ways of discouraging their customers from moving to low-margin, mass-volume outlets or high-price, high-service boutiques.62

FUTURE CHANGES IN RETAILING

Two exciting trends in retailing—the growth of multichannel retailing and the increasing use of data analytics—are likely to lead to many changes for retailers and consumers in the future.

Multichannel Retailing

Amazon is opening physical stores where consumers can shop and pick up orders.

Joseph Paul

The retailing formats described previously in this chapter represent an exciting menu of choices for creating customer value in the marketplace. Each format allows retailers Page 456to offer unique benefits and meet the particular needs of various customer groups. While each format has many successful applications, retailers in the future are likely to combine many of the formats to offer a broader spectrum of benefits and experiences and to appeal to different segments of consumers.63 These multichannel retailers will utilize and integrate a combination of traditional store formats and nonstore formats such as catalogs, television, home shopping, and online retailing. Barnes & Noble, for example, created Barnesandnoble.com to compete with Amazon.com. Similarly, Office Depot has integrated its store, catalog, and Internet operations, and Amazon has recently opened its first physical stores on college campuses.64

Multiple retail channels have often been viewed as alternatives that might cannibalize each other. When the channels are integrated, however, they can offer many opportunities to interact with and create value for a consumer. The various channels become a series of touch points. For example, a consumer might use a mobile app to scan a QR (quick response) code from a catalog, place an order online, pick up the product from the nearest store, call customer service for installation, and provide feedback on the retailer’s social media page. In this way, the channels become complementary. Experts suggest this integration of various retail channels should be described with a new term—omnichannel retailing.

Multichannel retailers also benefit from the synergy of sharing information among the different channel operations. Online retailers have recognized that the Internet often serves as a source of information and a transactional tool rather than a relationship-building medium, and they are working to find ways to complement traditional customer interactions.65 The benefits of multichannel marketing are also apparent in the spending behavior of consumers, as described in the Marketing Matters box.66

Marketing Matters

customer value

The Multichannel Marketing Multiplier

Multichannel marketing is the blending of different communication and delivery channels that are mutually reinforcing in attracting, retaining, and building relationships with consumers who shop and buy in the traditional marketplace and marketspace. Industry analysts refer to the complementary role of different communication and delivery channels as an influence effect.

Retailers that integrate and leverage their stores, catalogs, and websites have seen a sizable lift in yearly sales recorded from individual customers. Eddie Bauer is a good example. Customers who shop only one of its channels spend $100 to $200 per year. Those who shop in two channels spend $300 to $500 annually. Customers who shop all three channels—store, catalog, and website—spend $800 to $1,000 per year. Moreover, multichannel customers have been found to be three times as profitable as single-channel customers.

JCPenney has seen similar results. The company is a leading multichannel retailer and reports that a JCPenney customer who shops in all three channels—store, catalog, and website—spends four to eight times as much as a customer who shops in only one channel, as shown in the chart.

Data Analytics

Data analytics has been described as the “new science of retailing.” Data now available from the use of wearable technology (described earlier in this chapter) Page 457and the growth of multichannel marketing complement the substantial amounts of data already collected through scanner and loyalty card systems. The combination of these data sources has the potential to enable a new, comprehensive, and integrated analytical tool for retailers. In fact, a survey of 418 managers in eight industries indicated that firms in the retail industry have the most to gain from deploying customer analytics.

The use of data analytics can benefit retailers in at least three ways. First, understanding how consumers use multiple channels, information sources, and payment options can help retailers predict shopping behavior. Second, detailed customer-specific data will allow merchants to provide personalized, real-time messaging and promotions. Finally, tracking customer needs allows retailers to offer innovative products, maintain optimal inventory levels, and manage prices to remain competitive and profitable. As one retailing expert explains, “this information is invaluable.”67

learning review

16-12. Using the wheel of retailing, describe the characteristics of a new retail form that has just entered the market.

16-13. Market share is usually fought out before the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stage of the retail life cycle.

16-14. What is an influence effect?

WHOLESALING

LO 16-6

Describe the types of firms that perform wholesaling activities and their functions.

Many retailers depend on intermediaries that engage in wholesaling activities—selling products and services for the purposes of resale or business use. There are several types of intermediaries, including wholesalers and agents (described briefly in Chapter 15), as well as manufacturers’ sales offices, which are important to understand as part of the retailing process.

Merchant Wholesalers

Merchant wholesalers are independently owned firms that take title to the merchandise they handle. They go by various names, including industrial distributor. Most firms engaged in wholesaling activities are merchant wholesalers.

Merchant wholesalers are classified as either full-service or limited-service wholesalers, depending on the number of functions performed. Two major types of full-service wholesalers exist. General merchandise (or full-line) wholesalers carry a broad assortment of merchandise and perform all channel functions. This type of wholesaler is most prevalent in the hardware, drug, and clothing industries. However, these wholesalers do not maintain much depth of assortment within specific product lines. Specialty merchandise (or limited-line) wholesalers offer a relatively narrow range of products but have an extensive assortment within the product lines carried. They perform all channel functions and are found in the health foods, automotive parts, and seafood industries.

Four major types of limited-service wholesalers exist. Rack jobbers furnish the racks or shelves that display merchandise in retail stores, perform all channel functions, and sell on consignment to retailers, which means they retain the title to the products displayed and bill retailers only for the merchandise sold. Familiar products such as hosiery, toys, housewares, and health and beauty items are sold by rack jobbers. Cash and carry wholesalers take title to merchandise but sell only to buyers who Page 458call on them, pay cash for merchandise, and furnish their own transportation for merchandise. They carry a limited product assortment and do not make deliveries, extend credit, or supply market information. This type of wholesaler is common in electric supplies, office supplies, hardware products, and groceries.

Drop shippers, or desk jobbers, are wholesalers that own the merchandise they sell but do not physically handle, stock, or deliver it. They simply solicit orders from retailers and other wholesalers and have the merchandise shipped directly from a producer to a buyer. Drop shippers are used for bulky products such as coal, lumber, and chemicals, which are sold in extremely large quantities. Truck jobbers are small wholesalers that have a small warehouse from which they stock their trucks for distribution to retailers. They usually handle limited assortments of fast-moving or perishable items that are sold for cash directly from trucks in their original packages. Truck jobbers handle products such as bakery items, dairy products, and meat.

Agents and Brokers

Unlike merchant wholesalers, agents and brokers do not take title to merchandise and typically perform fewer channel functions. They make their profit from commissions or fees paid for their services, whereas merchant wholesalers make their profit from the sale of the merchandise they own.

Used with permission of Manufacturers’ Agents National Association.

Manufacturers’ agents and selling agents are the two major types of agents used by producers. Manufacturers’ agents, or manufacturers’ representatives, work for several producers and carry noncompetitive, complementary merchandise in an exclusive territory. Manufacturers’ agents act as a producer’s sales arm in a territory and are principally responsible for the transactional channel functions, primarily selling. They are used extensively in the automotive supply, footwear, and fabricated steel industries. The Manufacturers’ Agents National Association (MANA) facilitates the process of matching manufacturers’ representatives with logical products and companies.

By comparison, selling agents represent a single producer and are responsible for the entire marketing function of that producer. They design promotional plans, set prices, determine distribution policies, and make recommendations on product strategy. Selling agents are used by small producers in the textile, apparel, food, and home furnishing industries.

Brokers are independent firms or individuals whose principal function is to bring buyers and sellers together to make sales. Brokers, unlike agents, usually have no continuous relationship with the buyer or seller but negotiate a contract between two parties and then move on to another task. Brokers are used extensively by producers of seasonal products (such as fruits and vegetables) and in the real estate industry.

A unique broker that acts in many ways like a manufacturer’s agent is a food broker, representing buyers and sellers in the grocery industry. Food brokers differ from conventional brokers because they act on behalf of producers on a permanent basis and receive a commission for their services. For example, Nabisco uses food brokers to sell its candies, margarine, and Planters peanuts, but it sells its line of cookies and crackers directly to retail stores.

Manufacturer’s Branches and Offices

Unlike merchant wholesalers, agents, and brokers, manufacturer’s branches and sales offices are wholly owned extensions of the producer that perform wholesaling activities. Producers assume wholesaling functions when there are no intermediaries to perform these activities, customers are few in number and geographically concentrated, or orders are large or require significant attention. A manufacturer’s branch office carries a producer’s inventory and performs the functions of a full-service wholesaler. A manufacturer’s sales office does not carry inventory, typically performs only a sales function, and serves as an alternative to agents and brokers.

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learning review

16-15. What is the difference between merchant wholesalers and agents?

16-16. Under what circumstances do producers assume wholesaling functions?

LEARNING OBJECTIVES REVIEW

LO 16-1 Identify retailers in terms of the utilities they provide.

Retailers provide time, place, form, and possession utilities. Time utility is provided by stores with convenient time-of-day (e.g., open 24 hours) or time-of-year (e.g., seasonal sports equipment available all year) availability. Place utility is provided by the number and location of the stores. Possession utility is provided by making a purchase possible (e.g., financing) or easier (e.g., delivery). Form utility is provided by producing or altering a product to meet the customer’s specifications (e.g., custom-made shirts).

LO 16-2 Explain the alternative ways to classify retail outlets.

Retail outlets can be classified by their form of ownership, level of service, and type of merchandise line. The forms of ownership include independent retailers, corporate chains, and contractual systems that include retailer-sponsored cooperatives, wholesaler-sponsored voluntary chains, and franchises. The levels of service include self-service, limited-service, and full-service outlets. Stores classified by their merchandise line include stores with depth, such as sporting goods specialty stores, and stores with breadth, such as large department stores.

LO 16-3 Describe the many methods of nonstore retailing.

Nonstore retailing includes automatic vending, direct mail and catalogs, television home shopping, online retailing, telemarketing, and direct selling. The methods of nonstore retailing vary by the level of involvement of the retailer and the level of involvement of the customer. Vending, for example, has low involvement, whereas both the consumer and the retailer have high involvement in direct selling.

LO 16-4 Classify retailers in terms of the retail positioning matrix, and specify retailing mix actions.

The retail positioning matrix positions retail outlets on two dimensions: breadth of product line and value added. There are four possible positions in the matrix—broad product line/low value added (Walmart), narrow product line/low value added (Payless ShoeSource), broad product line/high value added (Bloomingdale’s), and narrow product line/high value added (Tiffany & Co.). Retailing mix actions are used to manage a retail store and the merchandise in a store. The mix variables include pricing, store location, communication activities, and merchandise. Two common forms of assessment for retailers are sales per square foot and same-store growth.

LO 16-5 Explain changes in retailing with the wheel of retailing and the retail life-cycle concepts.

The wheel of retailing concept explains how retail outlets typically enter the market as low-status, low-margin stores. Over time, stores gradually add new products and services, increasing their prices, status, and margins, and leaving an opening for new low-status, low-margin stores. The retail life cycle describes the process of growth and decline for retail outlets through four stages: early growth, accelerated development, maturity, and decline.

LO 16-6 Describe the types of firms that perform wholesaling activities and their functions.

There are three types of firms that perform wholesaling functions. First, merchant wholesalers are independently owned and take title to merchandise. They include general merchandise wholesalers, specialty merchandise wholesalers, rack jobbers, cash and carry wholesalers, drop shippers, and truck jobbers. Merchant wholesalers can perform a variety of channel functions. Second, agents and brokers do not take title to merchandise and primarily perform marketing functions. Finally, manufacturer’s branches, which may carry inventory, and sales offices, which perform sales functions, are wholly owned by the producer.

LEARNING REVIEW ANSWERS

16-1 When Ralph Lauren makes shirts to a customer’s exact preferences, what utility is provided?

Answer: form utility—involves the production or alteration of a product

16-2 Two measures of the impact of retailing in the global economy are \_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_.

Answer: the total annual sales—four of the 40 largest businesses in the United States are retailers; the number of employees working at large retailers

16-3 Centralized decision making and purchasing are an advantage of \_\_\_\_\_\_\_\_\_\_ ownership.

Answer: corporate chain

16-4 What are some examples of new forms of self-service retailers?

Answer: New forms of self-service are being developed at warehouse clubs, gas stations, supermarkets, airlines, convenience stores, fast-food restaurants, and even coffee shops.

16-5 Page 460A shop for big men’s clothes carries pants in sizes 40 to 60. Would this be considered a broad or deep product line?

Answer: deep product line; the range of sizes relates to the assortment of a product item (pants) rather than the variety of product lines (pants, shirts, shoes, etc.)

16-6 Successful catalog retailers often send \_\_\_\_\_\_\_\_\_\_ catalogs to \_\_\_\_\_\_\_\_\_\_ markets identified in their databases.

Answer: specialty; niche

16-7 How are retailers increasing consumer interest and involvement in online retailing?

Answer: Retailers have improved the online retailing experience by adding experiential or interactive activities to their websites, allowing customers to “build” virtual products by customizing their purchases. And to minimize consumers leaving a website to compare prices and shipping costs on other sites, some firms now offer them the ability to compare competitors’ offerings.

16-8 Where are direct-selling retail sales growing? Why?

Answer: Direct-selling retailers are (1) expanding into global markets outside the United States and (2) reaching consumers who prefer one-on-one customer service and a social shopping experience rather than shopping online or at big discount stores.

16-9 What are the two dimensions of the retail positioning matrix?

Answer: The two dimensions of the retail positioning matrix are: (1) breadth of product line, which is the range of products sold through each outlet; and (2) value added, which includes elements such as location, product reliability, or prestige.

16-10 How does original markup differ from maintained markup?

Answer: The original markup is the difference between retailer cost and initial selling price, whereas maintained markup is the difference between the final selling price and retailer cost, which is also called the gross margin.

16-11 A huge shopping strip mall with multiple anchor stores is a(n) \_\_\_\_\_\_\_\_\_\_ center.

Answer: power

16-12 Using the wheel of retailing, describe the characteristics of a new retail form that has just entered the market.

Answer: a low-status, low-margin, low-price outlet

16-13 Market share is usually fought out before the \_\_\_\_\_\_\_\_\_\_ stage of the retail life cycle.

Answer: maturity

16-14 What is an influence effect?

Answer: An influence effect is the complementary role that different communication and delivery channels have on sales.

16-15 What is the difference between merchant wholesalers and agents?

Answer: Merchant wholesalers are independently owned firms that take title to the merchandise they handle and make their profit from the sale of merchandise they own. Agents do not take title to merchandise, typically perform fewer channel functions, and make their profit from commissions or fees paid for their services.

16-16 Under what circumstances do producers assume wholesaling functions?

Answer: Producers assume wholesaling functions when there are no intermediaries to perform these activities, customers are few in number and geographically concentrated, or orders are large or require significant attention.

FOCUSING ON KEY TERMS

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APPLYING MARKETING KNOWLEDGE

Discuss the impact of the growing number of dual-income households on (a) nonstore retailing and (b) the retail mix.

How does value added affect a store’s competitive position?

In retail pricing, retailers often have a maintained markup. Explain how this maintained markup differs from original markup and why it is so important.

What are the similarities and differences between the product and retail life cycles?

How would you classify Walmart in terms of its position on the wheel of retailing versus that of an off-price retailer?

Develop a chart to highlight the role of each of the four main elements of the retailing mix across the four stages of the retail life cycle.

Page 461 Refer to Figure 16–8 and review the position of Payless ShoeSource on the retail positioning matrix. What strategies should Payless ShoeSource follow to move itself into the same position as Tiffany & Co.?

Breadth and depth are two important components in distinguishing among types of retailers. Discuss the breadth and depth implications of the following retailers discussed in this chapter: (a) Nordstrom, (b) Walmart, (c) L.L.Bean, and (d) Best Buy.

According to the wheel of retailing and the retail life cycle, what will happen to factory outlet stores?

The text discusses the development of online retailing in the United States. How does the development of this retailing form agree with the implications of the retail life cycle?

Comment on this statement: “The only distinction among merchant wholesalers and agents and brokers is that merchant wholesalers take title to the products they sell.”

BUILDING YOUR MARKETING PLAN

Does your marketing plan involve using retailers? If the answer is “no,” read no further and do not include a retailing element in your plan. If the answer is “yes”:

Use Figure 16–8 to develop your retailing strategy by (a) selecting a position in the retail positioning matrix and (b) specifying the details of the retailing mix.

Develop a positioning statement describing the breadth of the product line (broad versus narrow) and value added (low versus high).

Describe an appropriate combination of retail pricing, store location, retail communication, and merchandise assortment.

Confirm that the wholesalers needed to support your retailing strategy are consistent with the channels and intermediaries you selected in Chapter 15.

Video Case 16 Video Case 16: Mall of America®: America’s Biggest Mall Knows the Secret to Successful Retailing!

VIDEO 16-6

Mall of America Video Case

kerin.tv/13e/v16-6

The secret to success at Mall of America is continually creating “new experiences for our guests,” explains Jill Renslow, senior vice president of business development and marketing. “We want to make not only our locals, but also our tourists have a unique experience every time they come and visit,” she adds.

That’s an ambitious undertaking for any retailer, but it is particularly challenging for Mall of America because it attracts more than 40 million guests each year. To create new experiences the mall uses a combination of constantly changing retail offerings, entertainment options, and special attractions. From new stores, to musical acts, to celebrity book signings, to fashion shows, and even two appearances by Taylor Swift, Mall of America has become the “Hollywood of the Midwest.” “The key truly is being fresh and exciting,” says Renslow.

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THE BIG IDEA FOR A BIG MALL

The concept of a huge mall was the result of several trends. First, covered shopping centers began to replace downtown main-street shopping areas in the United States. Second, retail developers observed that casinos were adding non-gambling activities to attract entire families. Taking their cue from Las Vegas, a Canadian family, the Ghermezians, built the West Edmonton Mall as a destination venue with shopping, restaurants, hotels, and a theme park. The success of the West Edmonton Mall led to the search for another location for the destination mall concept, and soon Mall of America was under construction in Minneapolis, Minnesota!

According to Dan Jasper, vice president of communications at Mall of America, the Ghermezians are a “wonder family that are visionaries.” “They dream really big dreams, and they bring them to reality; they did that in Edmonton with the West Edmonton Mall, Page 462and they did that here in Minnesota with Mall of America,” he explains. Today Mall of America is the largest mall in the United States with 4.8 million square feet of shopping and entertainment space. And it’s getting bigger! “We’re opening our new grand front entrance and that will bring us to 5.5 million square feet, making us by far not only the busiest, not only the most successful, but the largest, most massive mall in the nation,” says Jasper.

Executives at Mall of America face several important challenges. First, they must keep a huge and diverse portfolio of retailers and attractions in the Mall. Second, they must attract millions of visitors each year. Finally, they must increase its marketing and social media presence in the marketplace. The combination of these three activities is essential to the mall’s continued success. This is particularly true at a time when e-commerce and online shopping are growing in popularity.

MANAGING THE MALL

The size of Mall of America is difficult to comprehend. There are more than four miles of store front in an area the size of 88 football fields. Three anchor stores--Macy’s, Nordstrom, and Sears--are complemented by more than 500 specialty stores. The diversity of the retail offerings is equally amazing. The types of stores range from familiar names such as Banana Republic, Apple, and True Religion to unique stores such as Brickmania, which offers custom LEGO® building kits, and Games by James, which offers thousands of board games and puzzles. According to Renslow, “That’s what’s special about Mall of America, that’s what attracts people from around the world.”

To encourage entrepreneurs to come to the mall there is a specialty leasing program that offers the new retailers an affordable entry-level lease in exchange for flexibility related to their location. Mike Pohl, owner of the ACES Flight Simulation store, is one example of the unique businesses the program attracts. “I decided to locate at Mall of America because it’s the single biggest retail location in the country,” Mike explains. “There are 40 million people who come here every year, and it’s primarily an entertainment mall compared to a traditional mall, so it was a wonderful match for ACES,” he adds.

Mall of America also includes more than 20 restaurants, the House of Comedy for touring comedians, and an American Girl store with a doll hair salon and party facilities. The 14 Theaters at Mall of America include a 200-seat 3D theater equipped with D-Box motion seating, and a 148-seat theater for guests 21 and older.

Additional unique features of Mall of America include:

Nickelodeon Universe®, a seven-acre theme park with more than 20 attractions and rides, including a roller coaster, Ferris wheel, and a water chute in a skylighted area with more than 400 trees.

Sea Life® Minnesota aquarium, where visitors can see jellyfish, stingrays, and sea turtles, snorkel with tropical fish, or even SCUBA with sharks!

Two connected-access hotels including a 342-room JW Marriott and a 500-room Radisson Blu.

The Chapel of Love, which offers custom weddings and wedding packages and has performed more than 5,000 weddings in the mall!

Steve Skjold/Alamy

Regular events and activities include the Art + Style Series, Toddler Tuesdays, the Mall Stars program for people who want to walk and exercise in the Mall, and the Mall of America Music Series. Mall of America also hosts corporate events for organizations with large groups. There are more than 12,000 free parking spaces available to accommodate any size group!

THE MARKET

From its opening day, visitors have been going to Mall of America at the extraordinary rate of 10,000 visitors per day. This is possible because the mall attracts shoppers from more than 18 states including Minnesota, Wisconsin, Kentucky, Michigan, Ohio, and Pennsylvania and from more than 11 countries including Canada, Great Britain, France, Mexico, Germany, Scandinavia, Italy, Netherlands, Japan, China, and Spain. The mall has worked closely with airlines Page 463and other partners to offer “Shop Till You Drop” packages that bring shoppers from around the world.

As Renslow explains: “Mall of America shoppers are literally from ages 3 to 83, which is a great opportunity for us but also a challenge. We need to be able to make sure that we communicate with each one of our guests. So we focus on the local market, which makes up 60 percent of our shoppers, and we also focus on our tourists who are 40 percent of our shoppers, and we have different messages to those different audiences.” Another key target audience for the mall includes young women. Unmarried women have disposable income and like to travel, and married women are the primary purchase decision makers in their households and often bring their spouses, children, and girlfriends to the Mall.

Alvis Upitis/Alamy

MARKETING, SOCIAL MEDIA, AND MALL OF AMERICA

Another key to Mall of America’s success has been its ability to manage its presence in the marketplace. According to Sarah Schmidt, public relations manager for Mall of America, “A typical campaign for Mall of America includes TV, radio, and print and we also include social media campaigns.” A recent campaign called "The Scream Collector," for example, started with a TV ad and then followed up with progress reports on billboards. Another campaign created a blizzard in the mall. The “blizzard was a tweet-powered blizzard where guests had to tweet #twizzard, and once it hit a certain number of tweets it started snowing in the mall,” Schmidt says.

Social media are important elements of Mall of America campaigns. Dan Jasper explains, “Mall of America is at the forefront of social media and digital technology within the retail industry; for shopping malls nobody has us beat.” The mall has created a communication hub that integrates social media, texting, phone, and security all in a single system. “What that allows us to do is to speak with one voice, and to give real-time answers, suggestions, and advice to consumers,” he says.

What is in the future for Mall of America? According to Jasper the answer is an even bigger mall. “In the coming years we’re going to double the size of Mall of America” he says. So, prepare yourself for an even more extraordinary retailing experience!68

Questions

What is the key to success at Mall of America?

What trends contributed to the idea for the Mall of America? How did it get started?

What challenges does Mall of America face as it strives to continue its success?

What specific actions has Mall of America taken to address each challenge?

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16

Retailing and Wholesaling

LEARNING OBJECTIVES

After reading this chapter you should be able to:

LO 16-1 Identify retailers in terms of the utilities they provide.

LO 16-2 Explain the alternative ways to classify retail outlets.

LO 16-3 Describe the many methods of nonstore retailing.

LO 16-4 Classify retailers in terms of the retail positioning matrix, and specify retailing mix actions.

LO 16-5 Explain changes in retailing with the wheel of retailing and the retail life-cycle concepts.

LO 16-6 Describe the types of firms that perform wholesaling activities and their functions.

Shoppers Are Wearing the Future of Retailing!

What will retailing look like in the future? What may be the most influential change taking place for retailers today? Don’t look now but the answer is: you are wearing it!

Wearable technology has the potential to completely change the way we shop, and just as importantly, the way retailers sell. You may already own some of the early forms of wearable technology, such as the wristbands that track your activity. More recently, new products such as smartwatches and connected glasses have added many new capabilities. How will these technologies change retailing?

For consumers, wearable technology has the potential to create an enhanced customer experience. Smartwatches can provide information about deals, locations of products, and faster checkout. Target and Kohl’s, for example, send messages about special offers to Apple Watch wearers who are near their stores. Once shoppers are in the store their smartphone app will direct them toward sale items and alert them when they are near a selected product. Marsh Supermarkets use the List Ease shopping app developed by mobile marketing company InMarket to guide shoppers to groceries on their list. “Think of it as a list on your wrist,” explains InMarket’s Dave Heinzinger. Similarly, Apple Watch users who “like” a recipe on cooking app Epicurious will be directed to the ingredients needed to make the meal!

Smartphones will also change the checkout experience for shoppers. Valpak has created an app to provide Apple Watch wearers access to coupons for stores within a 25-mile radius of their location. Similarly, loyalty card apps will eliminate the need to carry, and find, the cards as they will store the barcodes and provide them for display when needed. Even more dramatic is the growing use of near field communication (NFC) products such as Apple Pay and Google Wallet, which permit consumers to pay by holding a device near a payment terminal. In the case of an Apple Watch wearer, simply moving the watch near the scanner will initiate a payment from the shopper’s credit card.

Retailers will benefit also. Connected glasses, such as Google Glass, resemble a pair of eyeglasses with a small display screen visible to the wearer. Image and voice recognition capabilities allow relevant information to be displayed on the screen. While consumers have been slow to adopt the glasses because of their appearance, enterprise applications have been much more successful. Retail clerks, salespeople, and technicians use the glasses to check manuals for technical information, verify stock inventories, place orders, or even check out customers from anywhere in the store.

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VIDEO 16-1

Apple Watch

kerin.tv/13e/v16-1

In the near future smart contact lenses will be available to consumers and retailers. The lenses will have the potential to create an augmented reality that overlays the physical, real-world environment with stored images or graphics. For example, customers could see how a new piece of furniture would look in their apartment or if the color of a pair of shoes matches clothes at home in their closet.1

Marcio Jose Sanchez/AP Images

Source: Virgin Airlines

Consumer Trends/Alamy

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These are just a few examples of the many exciting changes occurring in retailing today. This chapter examines the critical role of retailing in the marketplace and the challenging decisions retailers face as they strive to create value for customers.

What types of products will consumers buy through catalogs, television, the Internet, or by telephone? In what type of store will consumers look for products they don’t buy directly? How important is the location of the store? Will customers expect services such as alterations, delivery, installation, or repair? What price should be charged for each product? These are difficult and important questions that are an integral part of retailing. In the channel of distribution, retailing is where the customer meets the product. It is through retailing that exchange (a central aspect of marketing) occurs. Retailing includes all activities involved in selling, renting, and providing products and services to ultimate consumers for personal, family, or household use.

THE VALUE OF RETAILING

LO 16-1

Identify retailers in terms of the utilities they provide.

Retailing is an important marketing activity. Not only do producers and consumers meet through retailing actions, but retailing also creates customer value and has a significant impact on the economy. To consumers, the value of retailing is in the form of utilities provided (see Figure 16–1). Retailing’s economic value is represented by the people employed in retailing as well as by the total amount of money exchanged in retail sales (see Figure 16–2).

Figure 16–1 Which retailer best provides which utilities?

Figure 16–2 Are you surprised by the relative sales of different types of retailers?

Consumer Utilities Offered by Retailing

The utilities provided by retailers create value for consumers. Time, place, form, and possession utilities are offered by most retailers in varying degrees, but one utility is often emphasized more than others. Look at Figure 16–1 to see how well you can match the retailer with the utility being emphasized in the description.

VIDEO 16-2

CarMax

kerin.tv/13e/v16-2

Providing mini banks in supermarkets, as Wells Fargo does, puts the bank’s products and services close to the consumer, providing place utility. By providing financing Page 437or leasing and taking used cars as trade-ins, CarMax makes the purchase easier and provides possession utility. Form utility—production or alteration of a product—is offered by Ralph Lauren through its online Create Your Own program, which offers shirts that meet each customer’s specifications. Finding the right sporting equipment during the off-season is the time utility provided by Sports Authority. Many retailers offer a combination of the four basic utilities. Some supermarkets, for example, offer convenient locations (place utility); are open 24 hours a day (time utility); customize purchases in the bakery, deli, and florist (form utility); and allow several payment and credit options (possession utility).

The Global Economic Impact of Retailing

Tesco is one of the largest retailers outside the United States.

Keenretail/Alamy

Retailing is important to the U.S. and global economies. Four of the 40 largest businesses in the United States are retailers (Walmart, Costco, Home Depot, and Target). Walmart’s $485 billion in annual sales in 2014 surpassed the gross domestic product of all but 38 countries for that same year. Walmart, Costco, Home Depot, and Target together have more than 3 million employees—more than the combined populations of Jacksonville, Florida; Austin, Texas; and San Jose, California.2 Figure 16–2 shows that many types of retailers, including food stores, automobile dealers, and general merchandise outlets, are also significant contributors to the U.S. economy.3

Outside the United States large retailers include Aeon in Japan, Carrefour in France, Metro Group in Germany, and Tesco in Britain.4 In emerging economies such as China and Mexico, a combination of local and global retailers is evolving. Walmart, for example, has more than 6,300 stores outside the United States, including stores in Argentina, Brazil, China, India, Japan, Mexico, and the United Kingdom. Despite the presence of these large retailers, however, most international markets are dominated by local retailers.5

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learning review

16-1. When Ralph Lauren makes shirts to a customer’s exact preferences, what utility is provided?

16-2. Two measures of the impact of retailing in the global economy are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

CLASSIFYING RETAIL OUTLETS

LO 16-2

Explain the alternative ways to classify retail outlets.

For manufacturers, consumers, and the economy, retailing is an important component of marketing that has several variations. Because of the large number of alternative forms of retailing, it is easier to understand the differences among retail institutions by recognizing that outlets can be classified in several ways. First, form of ownership distinguishes retail outlets based on whether independent retailers, corporate chains, or contractual systems own the outlet. Second, level of service is used to describe the degree of service provided to the customer. Three levels of service are provided by self-, limited-, and full-service retailers. Finally, the type of merchandise line describes how many different types of products a store carries and in what assortment. The alternative types of outlets are discussed in greater detail in the following pages. For many consumers today, retail outlets are also evaluated in terms of their environmentally friendly, or green, activities, in addition to their level of service and merchandise line. The Making Responsible Decisions box gives examples of the green activities of several retailers.6

Making Responsible Decisions

Sustainability

How Green Is Your Retailer? The Rankings Are Out!

In a recent Nielsen survey of consumers from 60 countries, 55 percent of the respondents said they are willing to pay more for products and services provided by companies that are committed to positive social and environmental impact. In response, many retailers are “going green” and developing comprehensive and sophisticated business practices that reflect a new focus on social and environmental responsibility. The trend has become so important that Newsweek evaluates eight indicators of environmental performance to provide annual “green rankings” of large companies.

Source: Newsweek, LLC

The U.S. Green Retail Association offers guidance for retailers who are getting started at implementing new practices, and also provides a third-party certification that recognizes a commitment to “green” values. Some practices are intuitive and simple, such as encouraging the use of reusable shopping bags, installing LED lighting, and using nontoxic cleaning products. Many retailers are even using recyclable materials for credit and gift cards, rather than plastic. Other practices, such as reducing CO2 emissions with economical delivery vehicles, using rainwater for landscape maintenance, or finding alternative uses for landfill waste require a larger effort. Very often, however, these environmental initiatives also have financial benefits. When Home Depot switched light displays to CFL and LED light bulbs, painted the roofs of stores white, and installed solar panels, it reduced its energy use by 20 percent.

Shopping malls are adopting the practices also. In Syracuse, New York, for example, Destiny USA mall implemented water harvesting, air quality protection, landfill reclamation, and energy conservation practices to become the largest LEED (Leadership in Energy and Environmental Design) certified retail building in the world. Similarly, Walgreens became the first retailer to construct a Net Zero Energy store by using solar panels, wind turbines, daylight harvesting, and energy efficient building materials.

Do sustainability practices such as these influence your purchase decisions? If the answer is yes, you may want to review the green rankings at http://www.newsweek.com/search/site/green. Are your favorite retailers “green”?

Form of Ownership

There are three general forms of retail ownership—independent retailer, corporate chain, and contractual systems.

Independent Retailer

One of the most common forms of retail ownership is the independent business owned by an individual. Independent retailers account for most of the 1.1 million retail establishments in the United States and include hardware stores, convenience stores, clothing stores, and computer and software stores. In addition, there are 26,700 jewelry stores, 18,500 florists, and 22,100 sporting goods and hobby stores. For the independent retailer, the advantage of this form of ownership is simple: The owner is the boss. For customers, the independent store can offer convenience, personal service, and lifestyle compatibility.7

Corporate Chain

R Heyes Design/Alamy

A second form of ownership, the corporate chain, involves multiple outlets under common ownership. Macy’s, Inc., for example, operates 773 Macy’s department stores in 45 states. Macy’s also owns 37 Bloomingdale’s, which compete with other chain stores such as Saks Fifth Avenue and Neiman Marcus. Finally, Macy’s recently acquired Bluemercury, which includes 62 specialty beauty and spa services stores.

In a chain operation, centralization in decision making and purchasing is common. Chain stores have advantages in dealing with manufacturers, particularly as the size of the chain grows. A large chain can bargain with a manufacturer to obtain good service or volume discounts on orders. Target’s large volume makes it a strong negotiator with manufacturers of most products. For consumers, the buying power of chains translates into lower prices compared with other types of stores. Consumers also benefit in dealing with chains because there are multiple outlets with similar merchandise and consistent management policies.

Retailing has become a high-tech business for many large chains. Walmart, for example, has developed a sophisticated inventory management and cost control system Page 439that allows rapid price changes for each product in every store. In addition, stores such as Walmart and Target are implementing pioneering new technologies such as radio frequency identification (RFID) tags to improve the quality of information available about products.

Contractual Systems

Contractual systems involve independently owned stores that band together to act like a chain. Recall that in Chapter 15, we discussed three kinds of contractual vertical marketing systems: retailer-sponsored cooperatives, wholesaler-sponsored voluntary chains, and franchises (see Figure 15–6). One retailer-sponsored cooperative is Associated Grocers, which consists of neighborhood grocers that all agree with several other independent grocers to buy their goods directly from food manufacturers. In this way, members can take advantage of volume discounts commonly available to chains and also give the impression of being a large chain, which may be viewed more favorably by some consumers. Wholesaler-sponsored voluntary chains such as Independent Grocers Alliance (IGA) try to achieve similar benefits.

In a franchise system, an individual or firm (the franchisee) contracts with a parent company (the franchisor) to set up a business or retail outlet. The franchisor usually assists in selecting the location, setting up the store or facility, advertising, and training personnel. The franchisee usually pays a one-time franchise fee and an annual royalty, usually tied to the franchise’s sales. There are two general types of franchises: business-format franchises, such as McDonald’s, 7-Eleven, Subway, and Anytime Fitness and product-distribution franchises, such as a Ford dealership or a Coca-Cola distributor. In business-format franchising, the franchisor provides step-by-step procedures for most aspects of the business and guidelines for the most likely decisions Page 440a franchisee will face. In product-distribution franchising, the franchisor provides a few general guidelines and the franchisee is much more independent.

Anytime Fitness is a popular business-format franchisor.

Roberto Herrett/Alamy

Franchising is attractive because it offers an opportunity for people to enter a well-known, established business for which managerial advice is provided. Also, the franchise fee may be less than the cost of setting up an independent business. The International Franchise Association recently estimated that there are 769,782 franchised businesses in the United States, which generate $845 billion in annual sales and employ more than 8.5 million people. Franchising is popular in international markets also: More than half of all U.S. franchisors have operations in other countries. What is one of the fastest-growing franchises? Subway now has 42,227 locations, including 15,610 stores outside the United States.8

Franchise fees paid to the franchisor can range from $15,000 for a Subway franchise to $45,000 for a McDonald’s restaurant franchise. When the fees are combined with other costs such as real estate and equipment, however, the total investment can be much higher. Franchisees also pay an ongoing royalty fee that ranges from 5 percent for a Papa John’s pizza franchise to 30 percent for an H&R Block tax preparation franchise. Figure 16–3 shows the top five franchises, as rated by Entrepreneur magazine, based on factors such as size, financial strength, stability, years in business, and costs. By selling franchises, an organization reduces the cost of expansion but loses some control. A good franchisor, however, will maintain strong control of the outlets in terms of delivery and presentation of merchandise and try to enhance recognition of the franchise name.9

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Franchise Type of Business Total Start-up Cost Number of Franchises

Hampton Hotels Hotels $4,000,000–$14,000,000 1,964

Anytime Fitness Fitness centers $79,000–$371,000 2,839

Subway Sandwiches $117,000–$263,000 42,227

Jack in the Box Hamburgers $1,000,000–$2,000,000 2,251

Supercuts Hair salons $114,000–$243,000 2,469 \*\*\*

Figure 16–3 The top five franchises in the United States vary from hotels to hair salons.

Level of Service

Although most customers have little reason to notice form of ownership differences among retailers, they are typically aware of differences in terms of level of service. In some department stores, such as Loehmann’s, very few services are provided. Some grocery stores, such as the Cub Foods chain, encourage customers to bag their groceries themselves. In contrast, outlets such as Neiman Marcus provide a wide range of customer services, from gift wrapping to wardrobe consultation.

Self-Service

Redbox provides a service without clerks.

Ross Dettman/AP Images

Self-service requires that customers perform many functions during the purchase process. Warehouse clubs such as Costco, for example, are usually self-service, with all nonessential customer services eliminated. Many gas stations, supermarkets, and airlines today also have self-service lanes and terminals. Video retailer Redbox has 35,000 kiosks throughout the United States—and operates without a single clerk. New forms of self-service are being developed at convenience stores, Page 441fast-food restaurants, and even coffee shops! Shop24 offers self-service, automated convenience stores in more than 200 international locations and is expanding into the college and university market. At Zipcar you sign up, receive a Zipcard, book online, walk to a car, scan your card across a reader on the windshield to open the doors, and drive away! In general, the trend is toward retailing experiences that make customers co-creators of the value they receive. A recent survey showed that airline terminals with automated kiosks reduce the wait time for travelers by 22 percent.10

Limited Service

Limited-service outlets provide some services, such as credit and merchandise return, but not others, such as clothing alterations. General merchandise stores such as Walmart, Kmart, and Target are usually considered limited service outlets. Customers are responsible for most shopping activities, although salespeople are available in departments such as consumer electronics, jewelry, and lawn and garden.

Full Service

Full-service retailers, which include most specialty stores and department stores, provide many services to their customers. Neiman Marcus, Nordstrom, and Saks Fifth Avenue, for example, all rely on better service to sell more distinctive, higher-margin goods and to retain their customers. Nordstrom offers a wide variety of services, including on-site alterations and tailoring; free exchanges and easy returns; gift cards; credit cards through Nordstrom Bank; a 7-days-a-week customer service line; a live chat line with beauty, design, and wedding specialists; online shopping with in-store pickup; catalogs; and a four-level loyalty program called Nordstrom Rewards. During the next few years the company plans to spend $4.3 billion on additional services and improvements such as an in-store return capability for online purchases, personalized offers to rewards program members, and “smart” fitting rooms.11

Type of Merchandise Line

Retail outlets also vary by their merchandise lines, the key distinction being the breadth and depth of the items offered to customers (see Figure 16–4). Depth of product line means the store carries a large assortment of each item, such as a shoe store that offers running shoes, dress shoes, and children’s shoes. Breadth of product line refers to the variety of different items a store carries, such as appliances and books.

Figure 16–4 Stores vary in terms of the breadth and depth of their merchandise lines.

Depth of Line

Stores that carry a considerable assortment (depth) of a related line of items are limited-line stores. Sports Authority sporting goods stores carry considerable depth in sports equipment ranging from weight-lifting accessories to running shoes. Stores that carry tremendous depth in one primary line of merchandise are single-line stores. Victoria’s Secret, a nationwide chain, carries great depth in women’s lingerie. Both limited- and single-line stores are often referred to as specialty outlets.

Staples is the category killer in office supplies because it dominates the market in that category.

McGraw-Hill Education/Editorial Image, LLC, photographer

Specialty discount outlets focus on one type of product, such as electronics (Best Buy), office supplies (Staples), or books (Barnes & Noble), at very competitive prices. These outlets are referred to in the trade as category killers because they often dominate the market. Best Buy, for example, is the largest consumer electronics retailer Page 442with more than 1,650 stores, Staples operates more than 1,900 office supply stores, and Barnes & Noble is the largest book retailer. Interesting trends in this form of retailing include a shift to smaller stores, such as Best Buy Mobile stores, and the use of price matching to compete with online retailers.12

Breadth of Line

Stores that carry a broad product line, with limited depth, are referred to as general merchandise stores. For example, large department stores such as Dillard’s, Macy’s, and Neiman Marcus carry a wide range of different types of products but not unusual sizes. The breadth and depth of merchandise lines are important decisions for a retailer. Traditionally, outlets carried related lines of goods. Today, however, scrambled merchandising, offering several unrelated product lines in a single store, is common. For example, the modern drugstore carries food, camera equipment, magazines, paper products, toys, small hardware items, and pharmaceuticals. Supermarkets sell flowers and videos and print photos, in addition to selling groceries.

A form of scrambled merchandising, the hypermarket, has been successful in Europe. Hypermarkets are large stores (often more than 200,000 square feet) based on a simple concept: Offer “everything under one roof,” thus eliminating the need to stop at more than one location. These stores provide variety, quality, and low prices for groceries and general merchandise items. Carrefour, one of the largest retailers in this category, has 1,459 hypermarkets, including 237 in France, 489 in the rest of Europe, 291 in Latin America, and 375 in Asia. The growth of hypermarkets may be slowing in Europe, however, as consumers’ interest in smaller stores and convenient locations has increased. In response, retailers have been cutting prices on food to attract customers and lure them away from competitors. Despite its declining popularity in some parts of the world, the original hypermarket concept is still growing in popularity in many countries; in China, for example, Carrefour, Tesco, and Walmart are expanding the number of stores they operate.13

VIDEO 16-3

Walmart

kerin.tv/13e/v16-3

In the United States, retailers have discovered that shoppers are uncomfortable with the huge size of hypermarkets. In response, they have developed a variation of the hypermarket called the supercenter, which combines a typical merchandise store with a full-size grocery store. Walmart, Kmart, and Target now use this concept at 3,427 Walmart Supercenters, 11 Kmart Supercenters, and more than 249 SuperTarget stores. Due to the increasing popularity of online retailers, however, the large size of these supercenters is no longer a certain advantage; Amazon.com, for example, is able to offer an even larger selection than these huge stores. Also, due to modern supply chain management techniques, smaller retailers are now able to keep shelves stocked without a lot of inventory. As customer interest shifts, retailers are modifying the supercenter concept to accommodate consumers’ interest in smaller, more convenient stores. Walmart, for example, is expanding the number of its grocery stores, Walmart Neighborhood Markets. Figure 16–5 shows the differences between the supercenter and hypermarket concepts.14

Figure 16–5 Hypermarkets are popular in Europe, and supercenters are popular in the United States.

Scrambled merchandising is convenient for consumers because it eliminates the number of stops required in a shopping trip. However, for the retailer this merchandising policy means there is competition between very dissimilar types of retail outlets, or intertype competition. A local bakery may compete with a department store, discount outlet, or even a local gas station. Scrambled merchandising and intertype competition make it more difficult to be a retailer.

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16-3. Centralized decision making and purchasing are an advantage of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ownership.

16-4. What are some examples of new forms of self-service retailers?

16-5. A shop for big men’s clothes carries pants in sizes 40 to 60. Would this be considered a broad or a deep product line?

NONSTORE RETAILING

LO 16-3

Describe the many methods of nonstore retailing.

Most of the retailing examples discussed thus far in the chapter, such as corporate chains, department stores, and limited- and single-line specialty stores, involve store retailing. Many retailing activities today, however, are not limited to sales in a store. Nonstore retailing occurs outside a retail outlet through activities that involve varying levels of customer and retailer involvement. Figure 16–6 shows six forms of nonstore retailing: automatic vending, direct mail and catalogs, television home shopping, online retailing, telemarketing, and direct selling.

Figure 16–6 Many retailing activities do not involve a store. How many forms of nonstore retailing have you used?

Automatic Vending

Nonstore retailing includes vending machines, or v-commerce, which make it possible to serve customers when and where stores cannot. Machine maintenance, operating costs, and location leases can add to the cost of the products, so prices in vending machines are often higher than those in stores. About 34 percent of the products sold from vending machines are cold beverages, another 28 percent are candy and snacks, and 7 percent are food. Many new types of products are quickly becoming available in vending machines. Best Buy now uses vending machines to sell mobile phone and computer accessories, digital cameras, flash drives, and other consumer electronics products in airports, hospitals, and businesses. Similarly, HealthyYou Vending manufactures machines designed to distribute healthy drinks, snacks, and entrées in offices, Page 444health clubs, hospitals, schools, and colleges. The 4.8 million vending machines currently in use in the United States generate more than $19.5 billion in annual sales.15

Vending machines offer a variety of products. Which types of products are most common in a vending machine? For the answer, see the text.

Source: HealthyYOU® Vending

Improved technology is making vending easier to use. Many vending machines now have touchscreens and credit card readers. In addition, some vending machine companies are testing wireless technology to allow consumers to make vending machine purchases using their mobile phones. Wireless technology is also being used by companies to monitor sales; this information is used to schedule trips to restock machines when items are sold out. Another improvement in vending machines is the trend toward “green” machines, which consume less energy by using more efficient compressors, more efficient lighting, and better insulation. Vending machines are popular with consumers; recent consumer satisfaction research indicates that 82 percent of consumers believe purchasing from a vending machine is equal to or superior to a store purchase. For today’s consumers, vending machines represent an extension of brands that are already available in stores, through catalogs, and online.16

Direct Mail and Catalogs

VIDEO 16-4

IKEA

kerin.tv/13e/v16-4

Direct-mail and catalog retailing has been called “the store that comes to the door.” It is attractive for several reasons. First, it can eliminate the cost of a store and clerks. Dell, for example, is one of the largest computer and information technology retailers, and it does not have any stores. Second, direct mail and catalogs improve marketing efficiency through segmentation and targeting, and they create customer value by providing a fast and convenient means of making a purchase. Finally, many catalogs now serve as a tool to encourage consumers to visit a website, a social media page, or even a store. Online retailers such as Zappos, Amazon, and eBay, for example, now offer catalogs. The average U.S. household today receives 24 direct-mail items or catalogs each week. The Direct Marketing Association estimates that direct-mail and catalog retailing creates $642 billion in sales. Direct-mail and catalog retailing is popular outside the United States, also. Furniture retailer IKEA delivered 217 million copies of its catalog in 32 languages last year.17

Specialty catalogs appeal to market niches. They create value by providing a fast and convenient way to shop.

Sources: Left: Inter IKEA Systems B.V.; Middle: Crate and Barrel; Right: L.L.Bean Inc.

Several factors have had an impact on direct-mail and catalog retailing in recent years. The influence of large retailers such as IKEA, Crate and Barrel, L.L.Bean, and others has been positive as their marketing activities have increased the number and variety of products consumers purchase through direct mail and catalogs. Higher paper costs and increases in postage rates, the growing interest in do-not-mail legislation, the concern for “green” mailings and catalogs, and the possibility of the U.S. Postal Service reducing delivery to five days, however, have caused direct-mail and catalog retailers to Page 445search for ways to provide additional customer value. One approach has been to focus on proven customers rather than prospective customers. Some merchants, such as Williams-Sonoma, reduce mailings to zip codes that have not been profitable. Another successful approach used by many catalog retailers is to send specialty catalogs to market niches identified in their databases. L.L.Bean, for example, has developed an individual catalog for fly-fishing enthusiasts.18

New, creative forms of direct-mail and catalog retailing are also being developed. For example, retailers are creating digital versions of catalogs, which can be accessed through catalog-aggregating apps such as Google Catalogs. In the future, you will also see merchants using direct mail and catalogs to direct customers to personalized URLs (PURLs), such as www.JohnSmith.offer.com, which are web pages preloaded with information and offerings specific to an individual.19

Television Home Shopping

Television home shopping is possible when consumers watch a shopping channel on which products are displayed; orders are then placed over the telephone or the Internet. Currently, the three largest programs are QVC, HSN, and ShopNBC. QVC (“quality, value, convenience”) broadcasts live 24 hours each day, 364 days a year, and reaches 198 million cable and satellite homes in the United States, United Kingdom, Germany, Japan, and Italy. The company generates sales of $8.8 billion from its 60 million customers by offering more than 1,000 products each week. The television home shopping channels offer apparel, jewelry, cooking, home improvement products, electronics, toys, and even food. Of all these products, the best-selling item ever was a Dell personal computer.20

Television home shopping programs serve millions of customers each year. See the text to learn how they are attracting new customers.

Rick Diamond/Getty Images for Webster PR

In the past, television home shopping programs attracted mostly 40- to 60-year-old women. To attract a younger audience, QVC has invited celebrities onto the show. For example, Heidi Klum has been on the show promoting her jewelry collection, and Kim, Khloe, and Kourtney Kardashian have been hosts selling their apparel line. Singer Dolly Parton recently appeared on the show to sell her newest album. Broadcasting events such as the Red Carpet Style show at the Four Seasons Hotel in Beverly Hills also helps attract new customers. In addition, QVC supports its television program with retail stores, a website, mobile apps, text alerts, and online chats during programming. Similarly, Home Shopping Network now offers a multiplatform shopping experience. Some experts suggest that television shopping programs are becoming a modern version of door-to-door retailing by combining elements of reality TV programs, talk shows, and infomercials.21

Online Retailing

Online retailing allows consumers to search for, evaluate, and order products through the Internet. For many consumers, the advantages of this form of retailing are the 24-hour access, the ability to comparison shop, in-home privacy, and variety. Early studies of online shoppers indicated that men were initially more likely than women to buy something online. As the number of online households has increased, however, the profile of online shoppers has changed to include all shoppers.

Shopping “bots” like mysimon.com find the best prices for products specified by consumers. Read the text to learn more!

Source: CBS Interactive Inc.

Today, traditional and online retailers—“bricks and clicks”—are melding, using experiences from both approaches to create better value and experiences for customers. For example, Walmart (www.walmart.com) offers its Site-to-Store service that allows customers to place an order online and pick it up at a Walmart store. In addition, Walmart now offers its HomeFree option, which provides free shipping to customers’ homes when they order $50 or more of selected items. The Walmart Mobile app allows shoppers to order products using their smartphones Page 446and tablets. Two of the biggest days for online retailing are the Friday after Thanksgiving—Black Friday—and the Monday after Thanksgiving—Cyber Monday—which generated $2.4 billion and $2.6 billion in online sales, respectively. Online sales account for approximately 6.5 percent of all retail sales and are expected to reach $500 billion in 2018.22

Online retail purchases can be the result of several very different approaches. First, consumers can pay dues to become a member of an online discount service such as www.netmarket.com. The service offers thousands of products and hundreds of brand names at very low prices to its subscribers. Another approach to online retailing is to use a shopping “bot” such as www.mysimon.com. This site searches the Internet for a product specified by the consumer and provides a report listing retailers with the best prices. Consumers can also use the Internet to go directly to online malls (www.fashionmall.com), apparel retailers (www.gap.com), bookstores (www.amazon.com), computer manufacturers (www.dell.com), grocery stores (www.peapod.com), music and video stores (www.tower.com), and travel agencies (www.travelocity.com). Another approach is the online auction such as www.ebay.com, where 157 million buyers and 25 million sellers trade “practically anything.”23 A final approach to online retailing is “flash sales” at sites such as www.gilt.com and www.hautelook.com which will send you text messages announcing limited-time offers at big discounts.24

One of the biggest problems online retailers face is that nearly two-thirds of online shoppers make it to “checkout” and then leave the website to compare shipping costs and prices on other sites. Of the shoppers who leave, 70 percent do not return. One way online retailers are addressing this issue is to offer consumers a comparison of competitors’ offerings. At Allbookstores.com, for example, consumers can use a “comparison engine” to compare prices with Amazon.com, Barnesandnoble.com, and as many as 25 other bookstores. Experts suggest that online retailers should think of their websites as dynamic billboards if they are to attract and retain customers, and they should be easy to use, customizable, and facilitate interaction to enhance the online customer experience.25 For example, BMW, Mercedes, and Jaguar encourage website visitors to “build” a vehicle by selecting interior and exterior colors, packages, and options; view the customized virtual car; and then use Facebook, Twitter, or e-mail to share the configuration.

Online retailing is also evolving to include social shopping options, including: intermediaries, such as Groupon and LivingSocial, that match consumers with merchants; marketplaces, such as Google Offer and Storenvy, that provide a self-service advertising site; and aggregators, such as Yipit, that crawl the Web to find deals to list on their own site. Many consumers also use online resources as price comparison sites that influence their offline shopping at local stores.26

Telemarketing

Another form of nonstore retailing, called telemarketing, involves using the telephone to interact with and sell directly to consumers. Compared with direct mail, telemarketing is often viewed as a more efficient means of targeting consumers. Insurance companies, brokerage firms, and newspapers have often used this form of retailing as a way to cut costs but still maintain access to their customers. According to the Direct Marketing Association, annual telemarketing sales exceed $332 billion.27

The telemarketing industry has recently gone through dramatic changes as a result of new legislation related to telephone solicitations. Issues such as consumer privacy, industry standards, and ethical guidelines have encouraged discussion among consumers, Congress, the Federal Trade Commission, and businesses. As a result, legislation created the National Page 447Do Not Call Registry (www.donotcall.gov) for consumers who do not want to receive telephone calls related to company sales efforts. Currently, there are more than 221 million phone numbers on the registry. Companies that use telemarketing have already adapted by adding compliance software to ensure that numbers on the list are not called.28

Direct Selling

McGraw-Hill Education, Mark A. Dierker, photographer

Direct selling, sometimes called door-to-door retailing, involves direct sales of products and services to consumers through personal interactions and demonstrations in their home or office. A variety of companies, including familiar names such as Avon, Fuller Brush, Mary Kay Cosmetics, and World Book, have created an industry with more than $31 billion in U.S. sales by providing consumers with personalized service and convenience. In the United States, there are more than 15 million direct salespeople working full time and part time in a variety of product categories, including wellness, home durables, and personal care.29

Growth in the direct-selling industry is the result of two trends. First, many direct-selling retailers are expanding into markets outside the United States. Avon, for example, has 6 million sales representatives in 80 countries. More than one-third of Amway’s $11.8 billion in sales now comes from China and 90 percent comes from outside the United States. Similarly, other retailers such as Herbalife and Electrolux are rapidly expanding into new markets.30 Direct selling is likely to continue to grow in markets where the lack of effective distribution channels increases the importance of door-to-door convenience and where the lack of consumer knowledge about products and brands increases the need for a person-to-person approach.

The second trend is the growing number of companies that are using direct selling to reach consumers who prefer one-on-one customer service and a social shopping experience rather than online shopping or big discount stores. The Direct Selling Association reports that the number of companies using direct selling is increasing. Pampered Chef, for example, has 60,000 independent sales reps who sell the company’s products at in-home “Cooking Shows.” Interest among potential sales representatives grew during the recent economic downturn as people sought independence and control of their work activities.31

learning review

16-6. Successful catalog retailers often send \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ catalogs to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ markets identified in their databases.

16-7. How are retailers increasing consumer interest and involvement in online retailing?

16-8. Where are direct-selling retail sales growing? Why?

RETAILING STRATEGY

This section describes how a retailer develops and implements a retailing strategy. Research suggests that factors related to market and competitor characteristics may influence strategic choices and that the combination of choices is an important consideration for retailers.32 Figure 16–7 identifies the relationship between strategy, positioning, and the retailing mix.

Figure 16–7 Retailing strategy is related to store positioning and the retailing mix. Note the similarity between the retailing mix and the marketing mix.

Positioning a Retail Store

LO 16-4

Classify retailers in terms of the retail positioning matrix, and specify retailing mix actions.

The classification alternatives presented in the previous sections help determine one store’s position relative to its competitors. The retail positioning matrix is a matrix Page 448developed by the MAC Group, Inc., a management consulting firm.33 This matrix positions retail outlets on two dimensions: breadth of product line and value added. As defined previously, breadth of product line is the range of products sold through each outlet. The second dimension, value added, includes elements such as location (as with 7-Eleven stores), product reliability (as with Holiday Inn or McDonald’s), or prestige (as with Saks Fifth Avenue or Brooks Brothers).

The retail positioning matrix in Figure 16–8 shows four possible positions. An organization can be successful in any position, but unique strategies are required within each quadrant. Consider the four retailers shown in the matrix:

Bloomingdale’s has high value added and a broad product line. Retailers in this quadrant pay great attention to store design and product lines. Merchandise often has a high margin of profit and is of high quality. The stores in this position typically provide high levels of service.

Page 449Walmart has low value added and a broad line. Walmart and similar firms typically trade a lower price for increased volume in sales. Retailers in this position focus on price with low service levels and an image of being a place for bargains.

Tiffany & Co. has high value added and a narrow line. Retailers of this type typically sell a very restricted range of products that are high in status and quality. Customers are also provided with high levels of service.

Payless ShoeSource has low value added and a narrow line. For example, it carries athletic shoes at a discount. Economies of scale are achieved through centralized advertising, merchandising, buying, and distribution. Stores are usually the same in design, layout, and merchandise; hence they are often referred to as “cookie-cutter” stores.

Figure 16–8 Positioning strategies for retailers are based on breadth of product line and value added.

Walmart: Frederic J. Brown/AFP/Getty Images; Bloomingdale’s: Richard Levine/Alamy; Tiffany & Co: Ethan Miller/Getty Images; Payless ShoeSource: Philip Scalia/Alamy

Retailing Mix

In developing a retailing strategy, managers work with the retailing mix, which includes activities related to managing the store and the merchandise in the store. The retailing mix is similar to the marketing mix and includes retail pricing, store location, retail communication, and merchandise (see Figure 16–7).

Retail Pricing

In setting prices for merchandise, retailers must decide on the markup, markdown, and timing for markdowns. As mentioned in Appendix B (following Chapter 14), the markup refers to how much should be added to the cost the retailer paid for a product to reach the final selling price. Retailers decide on the original markup, but by the time the product is sold, they end up with a maintained markup. The original markup is the difference between retailer cost and initial selling price. When products do not sell as quickly as anticipated, their price is reduced. The difference between the final selling price and retailer cost is the maintained markup, which is also called the gross margin.

Discounting a product, or taking a markdown, occurs when the product does not sell at the original price and an adjustment is necessary. Often new models or styles force the price of existing models to be marked down. Discounts may also be used to increase demand for complementary products.34 For example, retailers might take a markdown on the price of cake mix to generate frosting purchases.

The timing of a markdown can be important. Many retailers take a markdown as soon as sales fall off to free up valuable selling space and cash. However, other stores delay markdowns to discourage bargain hunters and maintain an image of quality. There is no clear answer, but retailers must consider how the timing might affect future sales. Research indicates that frequent promotions increase consumers’ ability to remember regular prices.35

Ian Dagnall/Alamy

Although most retailers plan markdowns, many retailers use price discounts as part of their regular merchandising policy. Walmart and Home Depot, for example, emphasize consistently low prices and eliminate most markdowns with a strategy often called everyday low pricing (EDLP).36 Because consumers often use price as an indicator of product quality, however, the brand name of the product and the image of the store become important decision factors in these situations.37 Another strategy, everyday fair pricing, is advocated by retailers that may not offer the lowest price but try to create value for customers through service and the total buying experience.38 Consumers often use the prices of benchmark or signpost items, such as a can of Coke, to form an overall impression of a store’s prices.39 In addition, price is the most likely factor to influence consumers’ assessment of merchandise value.40 When store prices are based on rebates, retailers must be careful to avoid negative consumer perceptions if the rebate processing time is long (e.g., six weeks).41

A special issue for retailers trying to keep prices low is shrinkage, or breakage, theft, and fraud by customers and employees. The National Retail Federation estimates that the average retailer loses 1.4 percent of sales to shrinkage each year, totaling Page 450approximately $34 billion. Fraudulent returns alone account for close to $9 billion. About 44 percent of retail shrinkage is due to employee theft. Some retailers have noticed an increase in theft and fraud as economic conditions have declined. In general, the issue has increased retailers’ interest in new technical and surveillance techniques designed to detect and reduce shrinkage.42

At off-price retail stores like T.J. Maxx, prices are low but selection may be unpredictable.

Tim Boyle/Bloomberg via Getty Images

Off-price retailing is a retail pricing practice that is used by retailers such as T.J. Maxx, Burlington Coat Factory, and Ross Stores. Off-price retailing involves selling brand-name merchandise at lower than regular prices. The difference between the off-price retailer and a discount store is that off-price merchandise is bought by the retailer from manufacturers with excess inventory at prices below wholesale prices. The discounter, however, buys at full wholesale prices but takes less of a markup than traditional department stores. Because of this difference in the way merchandise is purchased by the retailer, selection at an off-price retailer is unpredictable, and searching for bargains has become a popular activity for many consumers. “It’s more like a sport than it is like ordinary shopping,” says Christopher Boring of Columbus, Ohio’s Retail Planning Associates.43 Savings to the consumer at off-price retailers are reportedly as high as 70 percent off the prices of a traditional department store.

There are several variations of off-price retailing. One is the warehouse club. These large stores (100,000 to 140,000 square feet) are rather stark outlets that typically lack elaborate displays, customer service, or home delivery. Warehouse clubs require an annual membership fee (ranging from $30 to $100) for the privilege of shopping there. While a typical Walmart stocks 30,000 to 60,000 items, warehouse clubs carry 4,000 to 8,000 items and usually stock just one brand of appliance or food product. Service is minimal, and customers usually pay by cash or check. Customers are attracted by the ultra-low prices and surprise deals on selected merchandise, although several of the clubs have recently started to add ancillary services such as optical shops and pharmacies to differentiate themselves from competitors. The major warehouse clubs in the United States include Walmart’s Sam’s Club, BJ’s Wholesale Club, and Costco’s Warehouse Club. Sales of these off-price retailers have grown to approximately $410 billion annually.44

Off 5th provides an outlet for excess merchandise from Saks Fifth Avenue.

Paul Sakuma/AP Images

A second variation is the outlet store. Factory outlets, such as Van Heusen Factory Store, Bass Shoe Outlet, and Gap Factory Store, offer products for 25 to 75 percent off the suggested retail price. Manufacturers use the stores to clear excess merchandise and to reach consumers who focus on value shopping. Retail outlets such as Nordstrom Rack and Off 5th (an outlet for Saks Fifth Avenue) allow retailers to sell excess merchandise and still maintain an image of offering merchandise at full price in their primary store. Increasingly, retailers are offering merchandise made expressly for the outlet division. The recessionary economic climate has increased demand for this type of off-price retailing, and many retailers have responded by opening more outlet stores. For example, Bloomingdale’s recently opened its first outlets. According to Michael Gould, Bloomingdale’s CEO, “Outlets deliver a compelling combination of fashion, quality, and value.”45

A third variation of off-price retailing is offered by single-price, or extreme value, retailers such as Family Dollar, Dollar General, and Dollar Tree. These stores average about 6,000 square feet in size and attract customers who want value and a “corner store” environment rather than a large supercenter experience. Some experts predict extraordinary growth of these types of retailers. Dollar General, for example, already has 11,800 stores in 43 states and plans to open more.46

Store Location

A second aspect of the retailing mix involves choosing a location and deciding how many stores to operate. Department stores, which started downtown Page 451in most cities, have followed customers to the suburbs, and in recent years more stores have been opened in large regional malls. Most stores today are near several others in one of five settings: the central business district, the regional center, the community shopping center, the strip mall, or the power center.

The central business district is the oldest retail setting, the community’s downtown area. Until the regional outflow to suburbs, it was the major shopping area, but the suburban population has grown at the expense of the downtown shopping area. Consumers often view central business district shopping as less convenient because of lack of parking, higher crime rates, and exposure to the weather. Many cities such as Louisville, Denver, and San Antonio have implemented plans to revitalize shopping in central business districts by attracting new offices, entertainment, and residents to downtown locations.

Stars and Stripes/Alamy

Regional shopping centers consist of 50 to 150 stores that typically attract customers who live or work within a 5- to 10-mile range. These large shopping areas often contain two or three anchor stores, which are well-known national or regional stores such as Sears, Saks Fifth Avenue, and Bloomingdale’s. The largest variation of a regional center in North America is the West Edmonton Mall in Alberta, Canada. This shopping center is a conglomerate of more than 800 stores, the world’s largest indoor amusement park, more than 100 restaurants, a movie complex, and two hotels, all of which attract 30 million visitors each year.47

A more limited approach to retail location is the community shopping center, which typically has one primary store (usually a department store branch) and often about 20 to 40 smaller outlets. Generally, these centers serve a population of consumers who are within a 10- to 20-minute drive.

Not every suburban store is located in a shopping mall. Many neighborhoods have clusters of stores, referred to as a strip mall, to serve people who are within a 5- to 10-minute drive. Gas station, hardware, laundry, grocery, and pharmacy outlets are commonly found in a strip mall. Unlike the larger shopping centers, the composition of these stores is usually unplanned. A variation of the strip mall is called the power center, which is a huge shopping strip with multiple anchor (or national) stores such as Home Depot, Best Buy, or JCPenney. Power centers combine the convenience of location provided by strip malls with the power of national stores. These large strip malls often have two to five anchor stores and contain a supermarket, which brings the shopper to the power center on a weekly basis.48

Retail Communication

A retailer’s communication activities can play an important role in positioning a store and creating its image. While the typical elements of communication and promotion are discussed in Chapter 18 on advertising, sales promotion, and public relations, Chapter 19 on social media, and Chapter 20 on personal selling, the message communicated by the many other elements of the retailing mix is also important.

Deciding on the image of a retail outlet is an important retailing mix factor that has been widely recognized and studied since the late 1950s. Pierre Martineau described image as “the way in which the store is defined in the shopper’s mind,” partly by its functional qualities and partly by an aura of psychological attributes.49 In this definition, functional refers to mix elements such as price ranges, store layouts, and breadth and depth of merchandise lines. The psychological attributes are the intangibles such as a sense of belonging, excitement, style, or warmth. Image has been found to include impressions of the corporation that operates the store, the category or type of store, the product categories in the store, the brands in each category, merchandise and service quality, and the marketing activities of the store.50

Closely related to the concept of image is the store’s atmosphere, or ambience. Many retailers believe that sales are affected by layout, color, lighting, music, scent,51 and other elements of the retail environment. This concept leads many retailers to use shopper marketing—the use of displays, coupons, product samples, and Page 452other brand communications to influence shopping behavior in a store. Shopper marketing can also influence behavior in an online shopping environment and when shoppers use smartphone apps to identify shopping needs or make purchase decisions.52 In creating the right image and atmosphere, a retail store tries to attract a target audience and fortify beliefs about the store, its products, and the shopping experience in the store. While store image perceptions can exist independently of shopping experiences, consumers’ shopping experiences influence their perceptions of a store.53 In addition, the physical surroundings of the retail environment influence a store’s employees.54

Merchandise

The final element of the retailing mix is the merchandise offering. Managing the breadth and depth of the product line requires retail buyers who are Page 453familiar with both the needs of the target market and the alternative products available from the many manufacturers that might be interested in having a product available in the store. A popular approach to managing the assortment of merchandise today is called category management. This approach assigns a manager the responsibility for selecting all products that consumers in a market segment might view as substitutes for each other, with the objective of maximizing sales and profits in the category. For example, a category manager might be responsible for shoes in a department store or paper products in a grocery store. As such, he or she would consider trade deals, order costs, and the between-brand effects of price range changes to determine brand assortment, order quantities, and prices.55

Retailers have a variety of marketing metrics that can be used to assess the effectiveness of a store or retail format. First, there are measures related to customers such as the number of transactions per customer, the average transaction size per customer, the number of customers per day or per hour, and the average length of a store visit. Second, there are measures related to the stores and the products such as level of inventory, number of returns, inventory turnover, inventory carrying cost, and average number of items per transaction. Finally, there are financial measures, such as gross margin, sales per employee, return on sales, and markdown percentage.56 The two most popular measures for retailers are sales per square foot and same-store sales growth. The Applying Marketing Metrics box describes the calculation of these measures for Apple Stores.57

Applying Marketing Metrics

Why Apple Stores May Be the Best in the United States!

How effective is my retail format compared to other stores? How are my stores performing this year compared to last year? Information related to these questions is often displayed in a marketing dashboard using two measures: (1) sales per square foot and (2) same-store sales growth.

Your Challenge

You have been assigned to evaluate the Apple Store retail format. The store’s simple, inviting, and open atmosphere has been the topic of discussion among many retailers. To allow an assessment of Apple Stores, use sales per square foot as an indicator of how effectively retail space is used to generate revenue and same-store sales growth to compare the increase in sales of stores that have been open for the same period of time. The calculations for these two indicators are:

Sales per square foot

=

Total sales

Selling area in square feet

Same-store sales growth

=

Store sales in year 2

−

Store sales in year 1

Store sales in year 1

Your Findings

You decide to collect sales information for Target, Neiman Marcus, Best Buy, Tiffany, and Apple Stores to allow comparisons with other successful retailers. The information you collect allows the calculation of sales per square foot and same-store growth for each store. The results are then easy to compare in the graphs below.

Your Action

The results of your investigation indicate that Apple Stores’ sales per square foot are higher than any of the comparison stores at $4,798. In addition, Apple’s same-store growth rate of 22 percent is higher than all of the other retailers. You conclude that the elements of Apple’s format are very effective and even indicate that Apple may currently be the best retailer in the United States.

learning review

16-9. What are the two dimensions of the retail positioning matrix?

16-10. How does original markup differ from maintained markup?

16-11. A huge shopping strip mall with multiple anchor stores is a(n) \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ center.

THE CHANGING NATURE OF RETAILING

LO 16-5

Explain changes in retailing with the wheel of retailing and the retail life-cycle concepts.

Retailing is the most dynamic aspect of a channel of distribution. New types of retailers are always entering the market, searching for a new position that will attract customers. The reason for this continual change is explained by two concepts: the wheel of retailing and the retail life cycle.

The Wheel of Retailing

The wheel of retailing describes how new forms of retail outlets enter the market.58 Usually they enter as low-status, low-margin stores such as a drive-in hamburger stand with no indoor seating and a limited menu (Figure 16–9, box 1). Gradually these outlets add fixtures and more embellishments to their stores (in-store seating, plants, and chicken sandwiches as well as hamburgers) to increase the attractiveness for customers. With these additions, prices and status rise (box 2). As time passes, these outlets add still more services and their prices and status increase even further (box 3). These retail outlets now face some new form of retail outlet that again appears as a low-status, low-margin operator (box 4), and the wheel of retailing turns as the cycle starts to repeat itself.

Figure 16–9 The wheel of retailing describes how retail outlets change over time. Read the text to find out the position of McDonald’s and Checkers on the wheel of retailing.

VIDEO 16-5

McDonald’s

kerin.tv/13e/v16-5

When Ray Kroc bought McDonald’s in 1955, it opened shortly before lunch and closed just after dinner, and it offered a limited menu for the two meals without any inside seating for customers. Over time, the wheel of retailing has led to new products Page 454and services. In 1975, McDonald’s introduced the Egg McMuffin and turned breakfast into a fast-food meal. Today, McDonald’s offers an extensive menu, including oatmeal and premium coffee, and it provides seating and services such as wireless Internet connections and kid-friendly PlayPlaces. For the future, McDonald’s is testing new food products including cakes and pastries, all-day breakfast, antibiotic-free chicken, and a “Create Your Taste” option, which allows consumers to select their own toppings for a gourmet burger, and new services such as touch screen kiosks and even a bicycle drive-thru.59

Outlets such as Checkers enter the wheel of retailing as low-status, low-margin stores. McGraw-Hill Education/Mark Dierker, photographer

These changes are leaving room for new forms of outlets such as Checkers Drive-In Restaurants. The Checkers chain opened fast-food stores that offered only basics—burgers, fries, and cola, a drive-thru window, and no inside seating—and now has more than 800 stores. The wheel is turning for other outlets, too—Boston Market has added pickup, delivery, and full-service catering to its original restaurant format, and it also provides Boston Market meal solutions through supermarket delis and Boston Market frozen meals in the frozen food sections of groceries. For still others, the wheel has come full circle. Taco Bell is now opening small, limited-offering outlets in gas stations, discount stores, or “wherever a burrito and a mouth might possibly intersect.”60

The wheel of retailing is also evident in retail outlets outside the restaurant industry. Discount stores were a major new retailing form in the 1960s and priced their products below those of department stores. As prices in discount stores rose in the 1980s, they found themselves overpriced compared with a new form of retail outlet—the warehouse club. Today, off-price retailers and factory outlets are offering prices even lower than warehouse clubs.

The Retail Life Cycle

The process of growth and decline that retail outlets, like products, experience is described by the retail life cycle.61 Figure 16–10 below shows the stages of the retail life cycle and where various forms of retail outlets are currently positioned along its spectrum. Early growth is the stage of emergence of a retail outlet, with a sharp departure from existing competition. Market share rises gradually, although profits may be low Page 455because of start-up costs. In the next stage, accelerated development, both market share and profit achieve their greatest growth rates. Usually multiple outlets are established as companies focus on the distribution element of the retailing mix. In this stage, some later competitors may enter. Wendy’s, for example, appeared on the hamburger chain scene almost 20 years after McDonald’s had begun operation. The key goal for the retailer in this stage is to establish a dominant position in the fight for market share.

Figure 16–10 The retail life cycle describes stages of growth and decline for retail outlets.

The battle for market share is usually fought before the maturity stage, and some competitors drop out of the market. In the war among hamburger chains, Jack in the Box, Gino’s Hamburgers, and Burger Chef used to be more dominant outlets. In the maturity stage, new retail forms enter the market (such as Fatburger and In-N-Out Burger in the hamburger chain industry), stores try to maintain their market share, and price discounting occurs.

The challenge facing retailers is to delay entering the decline stage, in which market share and profit fall rapidly. Specialty apparel retailers, such as the Gap, Limited, Benetton, and Ann Taylor, have noticed a decline in market share after years of growth. To prevent further decline, these retailers will need to find ways of discouraging their customers from moving to low-margin, mass-volume outlets or high-price, high-service boutiques.62

FUTURE CHANGES IN RETAILING

Two exciting trends in retailing—the growth of multichannel retailing and the increasing use of data analytics—are likely to lead to many changes for retailers and consumers in the future.

Multichannel Retailing

Amazon is opening physical stores where consumers can shop and pick up orders.

Joseph Paul

The retailing formats described previously in this chapter represent an exciting menu of choices for creating customer value in the marketplace. Each format allows retailers Page 456to offer unique benefits and meet the particular needs of various customer groups. While each format has many successful applications, retailers in the future are likely to combine many of the formats to offer a broader spectrum of benefits and experiences and to appeal to different segments of consumers.63 These multichannel retailers will utilize and integrate a combination of traditional store formats and nonstore formats such as catalogs, television, home shopping, and online retailing. Barnes & Noble, for example, created Barnesandnoble.com to compete with Amazon.com. Similarly, Office Depot has integrated its store, catalog, and Internet operations, and Amazon has recently opened its first physical stores on college campuses.64

Multiple retail channels have often been viewed as alternatives that might cannibalize each other. When the channels are integrated, however, they can offer many opportunities to interact with and create value for a consumer. The various channels become a series of touch points. For example, a consumer might use a mobile app to scan a QR (quick response) code from a catalog, place an order online, pick up the product from the nearest store, call customer service for installation, and provide feedback on the retailer’s social media page. In this way, the channels become complementary. Experts suggest this integration of various retail channels should be described with a new term—omnichannel retailing.

Multichannel retailers also benefit from the synergy of sharing information among the different channel operations. Online retailers have recognized that the Internet often serves as a source of information and a transactional tool rather than a relationship-building medium, and they are working to find ways to complement traditional customer interactions.65 The benefits of multichannel marketing are also apparent in the spending behavior of consumers, as described in the Marketing Matters box.66

Marketing Matters

customer value

The Multichannel Marketing Multiplier

Multichannel marketing is the blending of different communication and delivery channels that are mutually reinforcing in attracting, retaining, and building relationships with consumers who shop and buy in the traditional marketplace and marketspace. Industry analysts refer to the complementary role of different communication and delivery channels as an influence effect.

Retailers that integrate and leverage their stores, catalogs, and websites have seen a sizable lift in yearly sales recorded from individual customers. Eddie Bauer is a good example. Customers who shop only one of its channels spend $100 to $200 per year. Those who shop in two channels spend $300 to $500 annually. Customers who shop all three channels—store, catalog, and website—spend $800 to $1,000 per year. Moreover, multichannel customers have been found to be three times as profitable as single-channel customers.

JCPenney has seen similar results. The company is a leading multichannel retailer and reports that a JCPenney customer who shops in all three channels—store, catalog, and website—spends four to eight times as much as a customer who shops in only one channel, as shown in the chart.

Data Analytics

Data analytics has been described as the “new science of retailing.” Data now available from the use of wearable technology (described earlier in this chapter) Page 457and the growth of multichannel marketing complement the substantial amounts of data already collected through scanner and loyalty card systems. The combination of these data sources has the potential to enable a new, comprehensive, and integrated analytical tool for retailers. In fact, a survey of 418 managers in eight industries indicated that firms in the retail industry have the most to gain from deploying customer analytics.

The use of data analytics can benefit retailers in at least three ways. First, understanding how consumers use multiple channels, information sources, and payment options can help retailers predict shopping behavior. Second, detailed customer-specific data will allow merchants to provide personalized, real-time messaging and promotions. Finally, tracking customer needs allows retailers to offer innovative products, maintain optimal inventory levels, and manage prices to remain competitive and profitable. As one retailing expert explains, “this information is invaluable.”67

learning review

16-12. Using the wheel of retailing, describe the characteristics of a new retail form that has just entered the market.

16-13. Market share is usually fought out before the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stage of the retail life cycle.

16-14. What is an influence effect?

WHOLESALING

LO 16-6

Describe the types of firms that perform wholesaling activities and their functions.

Many retailers depend on intermediaries that engage in wholesaling activities—selling products and services for the purposes of resale or business use. There are several types of intermediaries, including wholesalers and agents (described briefly in Chapter 15), as well as manufacturers’ sales offices, which are important to understand as part of the retailing process.

Merchant Wholesalers

Merchant wholesalers are independently owned firms that take title to the merchandise they handle. They go by various names, including industrial distributor. Most firms engaged in wholesaling activities are merchant wholesalers.

Merchant wholesalers are classified as either full-service or limited-service wholesalers, depending on the number of functions performed. Two major types of full-service wholesalers exist. General merchandise (or full-line) wholesalers carry a broad assortment of merchandise and perform all channel functions. This type of wholesaler is most prevalent in the hardware, drug, and clothing industries. However, these wholesalers do not maintain much depth of assortment within specific product lines. Specialty merchandise (or limited-line) wholesalers offer a relatively narrow range of products but have an extensive assortment within the product lines carried. They perform all channel functions and are found in the health foods, automotive parts, and seafood industries.

Four major types of limited-service wholesalers exist. Rack jobbers furnish the racks or shelves that display merchandise in retail stores, perform all channel functions, and sell on consignment to retailers, which means they retain the title to the products displayed and bill retailers only for the merchandise sold. Familiar products such as hosiery, toys, housewares, and health and beauty items are sold by rack jobbers. Cash and carry wholesalers take title to merchandise but sell only to buyers who Page 458call on them, pay cash for merchandise, and furnish their own transportation for merchandise. They carry a limited product assortment and do not make deliveries, extend credit, or supply market information. This type of wholesaler is common in electric supplies, office supplies, hardware products, and groceries.

Drop shippers, or desk jobbers, are wholesalers that own the merchandise they sell but do not physically handle, stock, or deliver it. They simply solicit orders from retailers and other wholesalers and have the merchandise shipped directly from a producer to a buyer. Drop shippers are used for bulky products such as coal, lumber, and chemicals, which are sold in extremely large quantities. Truck jobbers are small wholesalers that have a small warehouse from which they stock their trucks for distribution to retailers. They usually handle limited assortments of fast-moving or perishable items that are sold for cash directly from trucks in their original packages. Truck jobbers handle products such as bakery items, dairy products, and meat.

Agents and Brokers

Unlike merchant wholesalers, agents and brokers do not take title to merchandise and typically perform fewer channel functions. They make their profit from commissions or fees paid for their services, whereas merchant wholesalers make their profit from the sale of the merchandise they own.

Used with permission of Manufacturers’ Agents National Association.

Manufacturers’ agents and selling agents are the two major types of agents used by producers. Manufacturers’ agents, or manufacturers’ representatives, work for several producers and carry noncompetitive, complementary merchandise in an exclusive territory. Manufacturers’ agents act as a producer’s sales arm in a territory and are principally responsible for the transactional channel functions, primarily selling. They are used extensively in the automotive supply, footwear, and fabricated steel industries. The Manufacturers’ Agents National Association (MANA) facilitates the process of matching manufacturers’ representatives with logical products and companies.

By comparison, selling agents represent a single producer and are responsible for the entire marketing function of that producer. They design promotional plans, set prices, determine distribution policies, and make recommendations on product strategy. Selling agents are used by small producers in the textile, apparel, food, and home furnishing industries.

Brokers are independent firms or individuals whose principal function is to bring buyers and sellers together to make sales. Brokers, unlike agents, usually have no continuous relationship with the buyer or seller but negotiate a contract between two parties and then move on to another task. Brokers are used extensively by producers of seasonal products (such as fruits and vegetables) and in the real estate industry.

A unique broker that acts in many ways like a manufacturer’s agent is a food broker, representing buyers and sellers in the grocery industry. Food brokers differ from conventional brokers because they act on behalf of producers on a permanent basis and receive a commission for their services. For example, Nabisco uses food brokers to sell its candies, margarine, and Planters peanuts, but it sells its line of cookies and crackers directly to retail stores.

Manufacturer’s Branches and Offices

Unlike merchant wholesalers, agents, and brokers, manufacturer’s branches and sales offices are wholly owned extensions of the producer that perform wholesaling activities. Producers assume wholesaling functions when there are no intermediaries to perform these activities, customers are few in number and geographically concentrated, or orders are large or require significant attention. A manufacturer’s branch office carries a producer’s inventory and performs the functions of a full-service wholesaler. A manufacturer’s sales office does not carry inventory, typically performs only a sales function, and serves as an alternative to agents and brokers.

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learning review

16-15. What is the difference between merchant wholesalers and agents?

16-16. Under what circumstances do producers assume wholesaling functions?

LEARNING OBJECTIVES REVIEW

LO 16-1 Identify retailers in terms of the utilities they provide.

Retailers provide time, place, form, and possession utilities. Time utility is provided by stores with convenient time-of-day (e.g., open 24 hours) or time-of-year (e.g., seasonal sports equipment available all year) availability. Place utility is provided by the number and location of the stores. Possession utility is provided by making a purchase possible (e.g., financing) or easier (e.g., delivery). Form utility is provided by producing or altering a product to meet the customer’s specifications (e.g., custom-made shirts).

LO 16-2 Explain the alternative ways to classify retail outlets.

Retail outlets can be classified by their form of ownership, level of service, and type of merchandise line. The forms of ownership include independent retailers, corporate chains, and contractual systems that include retailer-sponsored cooperatives, wholesaler-sponsored voluntary chains, and franchises. The levels of service include self-service, limited-service, and full-service outlets. Stores classified by their merchandise line include stores with depth, such as sporting goods specialty stores, and stores with breadth, such as large department stores.

LO 16-3 Describe the many methods of nonstore retailing.

Nonstore retailing includes automatic vending, direct mail and catalogs, television home shopping, online retailing, telemarketing, and direct selling. The methods of nonstore retailing vary by the level of involvement of the retailer and the level of involvement of the customer. Vending, for example, has low involvement, whereas both the consumer and the retailer have high involvement in direct selling.

LO 16-4 Classify retailers in terms of the retail positioning matrix, and specify retailing mix actions.

The retail positioning matrix positions retail outlets on two dimensions: breadth of product line and value added. There are four possible positions in the matrix—broad product line/low value added (Walmart), narrow product line/low value added (Payless ShoeSource), broad product line/high value added (Bloomingdale’s), and narrow product line/high value added (Tiffany & Co.). Retailing mix actions are used to manage a retail store and the merchandise in a store. The mix variables include pricing, store location, communication activities, and merchandise. Two common forms of assessment for retailers are sales per square foot and same-store growth.

LO 16-5 Explain changes in retailing with the wheel of retailing and the retail life-cycle concepts.

The wheel of retailing concept explains how retail outlets typically enter the market as low-status, low-margin stores. Over time, stores gradually add new products and services, increasing their prices, status, and margins, and leaving an opening for new low-status, low-margin stores. The retail life cycle describes the process of growth and decline for retail outlets through four stages: early growth, accelerated development, maturity, and decline.

LO 16-6 Describe the types of firms that perform wholesaling activities and their functions.

There are three types of firms that perform wholesaling functions. First, merchant wholesalers are independently owned and take title to merchandise. They include general merchandise wholesalers, specialty merchandise wholesalers, rack jobbers, cash and carry wholesalers, drop shippers, and truck jobbers. Merchant wholesalers can perform a variety of channel functions. Second, agents and brokers do not take title to merchandise and primarily perform marketing functions. Finally, manufacturer’s branches, which may carry inventory, and sales offices, which perform sales functions, are wholly owned by the producer.

LEARNING REVIEW ANSWERS

16-1 When Ralph Lauren makes shirts to a customer’s exact preferences, what utility is provided?

Answer: form utility—involves the production or alteration of a product

16-2 Two measures of the impact of retailing in the global economy are \_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_.

Answer: the total annual sales—four of the 40 largest businesses in the United States are retailers; the number of employees working at large retailers

16-3 Centralized decision making and purchasing are an advantage of \_\_\_\_\_\_\_\_\_\_ ownership.

Answer: corporate chain

16-4 What are some examples of new forms of self-service retailers?

Answer: New forms of self-service are being developed at warehouse clubs, gas stations, supermarkets, airlines, convenience stores, fast-food restaurants, and even coffee shops.

16-5 Page 460A shop for big men’s clothes carries pants in sizes 40 to 60. Would this be considered a broad or deep product line?

Answer: deep product line; the range of sizes relates to the assortment of a product item (pants) rather than the variety of product lines (pants, shirts, shoes, etc.)

16-6 Successful catalog retailers often send \_\_\_\_\_\_\_\_\_\_ catalogs to \_\_\_\_\_\_\_\_\_\_ markets identified in their databases.

Answer: specialty; niche

16-7 How are retailers increasing consumer interest and involvement in online retailing?

Answer: Retailers have improved the online retailing experience by adding experiential or interactive activities to their websites, allowing customers to “build” virtual products by customizing their purchases. And to minimize consumers leaving a website to compare prices and shipping costs on other sites, some firms now offer them the ability to compare competitors’ offerings.

16-8 Where are direct-selling retail sales growing? Why?

Answer: Direct-selling retailers are (1) expanding into global markets outside the United States and (2) reaching consumers who prefer one-on-one customer service and a social shopping experience rather than shopping online or at big discount stores.

16-9 What are the two dimensions of the retail positioning matrix?

Answer: The two dimensions of the retail positioning matrix are: (1) breadth of product line, which is the range of products sold through each outlet; and (2) value added, which includes elements such as location, product reliability, or prestige.

16-10 How does original markup differ from maintained markup?

Answer: The original markup is the difference between retailer cost and initial selling price, whereas maintained markup is the difference between the final selling price and retailer cost, which is also called the gross margin.

16-11 A huge shopping strip mall with multiple anchor stores is a(n) \_\_\_\_\_\_\_\_\_\_ center.

Answer: power

16-12 Using the wheel of retailing, describe the characteristics of a new retail form that has just entered the market.

Answer: a low-status, low-margin, low-price outlet

16-13 Market share is usually fought out before the \_\_\_\_\_\_\_\_\_\_ stage of the retail life cycle.

Answer: maturity

16-14 What is an influence effect?

Answer: An influence effect is the complementary role that different communication and delivery channels have on sales.

16-15 What is the difference between merchant wholesalers and agents?

Answer: Merchant wholesalers are independently owned firms that take title to the merchandise they handle and make their profit from the sale of merchandise they own. Agents do not take title to merchandise, typically perform fewer channel functions, and make their profit from commissions or fees paid for their services.

16-16 Under what circumstances do producers assume wholesaling functions?

Answer: Producers assume wholesaling functions when there are no intermediaries to perform these activities, customers are few in number and geographically concentrated, or orders are large or require significant attention.

FOCUSING ON KEY TERMS

breadth of product line, 441

brokers, 458

category management, 453

central business district, 451

community shopping center, 451

depth of product line, 441

form of ownership, 438

hypermarket, 442

intertype competition, 442

level of service, 438

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wheel of retailing, 453

APPLYING MARKETING KNOWLEDGE

Discuss the impact of the growing number of dual-income households on (a) nonstore retailing and (b) the retail mix.

How does value added affect a store’s competitive position?

In retail pricing, retailers often have a maintained markup. Explain how this maintained markup differs from original markup and why it is so important.

What are the similarities and differences between the product and retail life cycles?

How would you classify Walmart in terms of its position on the wheel of retailing versus that of an off-price retailer?

Develop a chart to highlight the role of each of the four main elements of the retailing mix across the four stages of the retail life cycle.

Page 461 Refer to Figure 16–8 and review the position of Payless ShoeSource on the retail positioning matrix. What strategies should Payless ShoeSource follow to move itself into the same position as Tiffany & Co.?

Breadth and depth are two important components in distinguishing among types of retailers. Discuss the breadth and depth implications of the following retailers discussed in this chapter: (a) Nordstrom, (b) Walmart, (c) L.L.Bean, and (d) Best Buy.

According to the wheel of retailing and the retail life cycle, what will happen to factory outlet stores?

The text discusses the development of online retailing in the United States. How does the development of this retailing form agree with the implications of the retail life cycle?

Comment on this statement: “The only distinction among merchant wholesalers and agents and brokers is that merchant wholesalers take title to the products they sell.”

BUILDING YOUR MARKETING PLAN

Does your marketing plan involve using retailers? If the answer is “no,” read no further and do not include a retailing element in your plan. If the answer is “yes”:

Use Figure 16–8 to develop your retailing strategy by (a) selecting a position in the retail positioning matrix and (b) specifying the details of the retailing mix.

Develop a positioning statement describing the breadth of the product line (broad versus narrow) and value added (low versus high).

Describe an appropriate combination of retail pricing, store location, retail communication, and merchandise assortment.

Confirm that the wholesalers needed to support your retailing strategy are consistent with the channels and intermediaries you selected in Chapter 15.

Video Case 16 Video Case 16: Mall of America®: America’s Biggest Mall Knows the Secret to Successful Retailing!

VIDEO 16-6

Mall of America Video Case

kerin.tv/13e/v16-6

The secret to success at Mall of America is continually creating “new experiences for our guests,” explains Jill Renslow, senior vice president of business development and marketing. “We want to make not only our locals, but also our tourists have a unique experience every time they come and visit,” she adds.

That’s an ambitious undertaking for any retailer, but it is particularly challenging for Mall of America because it attracts more than 40 million guests each year. To create new experiences the mall uses a combination of constantly changing retail offerings, entertainment options, and special attractions. From new stores, to musical acts, to celebrity book signings, to fashion shows, and even two appearances by Taylor Swift, Mall of America has become the “Hollywood of the Midwest.” “The key truly is being fresh and exciting,” says Renslow.

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THE BIG IDEA FOR A BIG MALL

The concept of a huge mall was the result of several trends. First, covered shopping centers began to replace downtown main-street shopping areas in the United States. Second, retail developers observed that casinos were adding non-gambling activities to attract entire families. Taking their cue from Las Vegas, a Canadian family, the Ghermezians, built the West Edmonton Mall as a destination venue with shopping, restaurants, hotels, and a theme park. The success of the West Edmonton Mall led to the search for another location for the destination mall concept, and soon Mall of America was under construction in Minneapolis, Minnesota!

According to Dan Jasper, vice president of communications at Mall of America, the Ghermezians are a “wonder family that are visionaries.” “They dream really big dreams, and they bring them to reality; they did that in Edmonton with the West Edmonton Mall, Page 462and they did that here in Minnesota with Mall of America,” he explains. Today Mall of America is the largest mall in the United States with 4.8 million square feet of shopping and entertainment space. And it’s getting bigger! “We’re opening our new grand front entrance and that will bring us to 5.5 million square feet, making us by far not only the busiest, not only the most successful, but the largest, most massive mall in the nation,” says Jasper.

Executives at Mall of America face several important challenges. First, they must keep a huge and diverse portfolio of retailers and attractions in the Mall. Second, they must attract millions of visitors each year. Finally, they must increase its marketing and social media presence in the marketplace. The combination of these three activities is essential to the mall’s continued success. This is particularly true at a time when e-commerce and online shopping are growing in popularity.

MANAGING THE MALL

The size of Mall of America is difficult to comprehend. There are more than four miles of store front in an area the size of 88 football fields. Three anchor stores--Macy’s, Nordstrom, and Sears--are complemented by more than 500 specialty stores. The diversity of the retail offerings is equally amazing. The types of stores range from familiar names such as Banana Republic, Apple, and True Religion to unique stores such as Brickmania, which offers custom LEGO® building kits, and Games by James, which offers thousands of board games and puzzles. According to Renslow, “That’s what’s special about Mall of America, that’s what attracts people from around the world.”

To encourage entrepreneurs to come to the mall there is a specialty leasing program that offers the new retailers an affordable entry-level lease in exchange for flexibility related to their location. Mike Pohl, owner of the ACES Flight Simulation store, is one example of the unique businesses the program attracts. “I decided to locate at Mall of America because it’s the single biggest retail location in the country,” Mike explains. “There are 40 million people who come here every year, and it’s primarily an entertainment mall compared to a traditional mall, so it was a wonderful match for ACES,” he adds.

Mall of America also includes more than 20 restaurants, the House of Comedy for touring comedians, and an American Girl store with a doll hair salon and party facilities. The 14 Theaters at Mall of America include a 200-seat 3D theater equipped with D-Box motion seating, and a 148-seat theater for guests 21 and older.

Additional unique features of Mall of America include:

Nickelodeon Universe®, a seven-acre theme park with more than 20 attractions and rides, including a roller coaster, Ferris wheel, and a water chute in a skylighted area with more than 400 trees.

Sea Life® Minnesota aquarium, where visitors can see jellyfish, stingrays, and sea turtles, snorkel with tropical fish, or even SCUBA with sharks!

Two connected-access hotels including a 342-room JW Marriott and a 500-room Radisson Blu.

The Chapel of Love, which offers custom weddings and wedding packages and has performed more than 5,000 weddings in the mall!

Steve Skjold/Alamy

Regular events and activities include the Art + Style Series, Toddler Tuesdays, the Mall Stars program for people who want to walk and exercise in the Mall, and the Mall of America Music Series. Mall of America also hosts corporate events for organizations with large groups. There are more than 12,000 free parking spaces available to accommodate any size group!

THE MARKET

From its opening day, visitors have been going to Mall of America at the extraordinary rate of 10,000 visitors per day. This is possible because the mall attracts shoppers from more than 18 states including Minnesota, Wisconsin, Kentucky, Michigan, Ohio, and Pennsylvania and from more than 11 countries including Canada, Great Britain, France, Mexico, Germany, Scandinavia, Italy, Netherlands, Japan, China, and Spain. The mall has worked closely with airlines Page 463and other partners to offer “Shop Till You Drop” packages that bring shoppers from around the world.

As Renslow explains: “Mall of America shoppers are literally from ages 3 to 83, which is a great opportunity for us but also a challenge. We need to be able to make sure that we communicate with each one of our guests. So we focus on the local market, which makes up 60 percent of our shoppers, and we also focus on our tourists who are 40 percent of our shoppers, and we have different messages to those different audiences.” Another key target audience for the mall includes young women. Unmarried women have disposable income and like to travel, and married women are the primary purchase decision makers in their households and often bring their spouses, children, and girlfriends to the Mall.

Alvis Upitis/Alamy

MARKETING, SOCIAL MEDIA, AND MALL OF AMERICA

Another key to Mall of America’s success has been its ability to manage its presence in the marketplace. According to Sarah Schmidt, public relations manager for Mall of America, “A typical campaign for Mall of America includes TV, radio, and print and we also include social media campaigns.” A recent campaign called "The Scream Collector," for example, started with a TV ad and then followed up with progress reports on billboards. Another campaign created a blizzard in the mall. The “blizzard was a tweet-powered blizzard where guests had to tweet #twizzard, and once it hit a certain number of tweets it started snowing in the mall,” Schmidt says.

Social media are important elements of Mall of America campaigns. Dan Jasper explains, “Mall of America is at the forefront of social media and digital technology within the retail industry; for shopping malls nobody has us beat.” The mall has created a communication hub that integrates social media, texting, phone, and security all in a single system. “What that allows us to do is to speak with one voice, and to give real-time answers, suggestions, and advice to consumers,” he says.

What is in the future for Mall of America? According to Jasper the answer is an even bigger mall. “In the coming years we’re going to double the size of Mall of America” he says. So, prepare yourself for an even more extraordinary retailing experience!68

Questions

What is the key to success at Mall of America?

What trends contributed to the idea for the Mall of America? How did it get started?

What challenges does Mall of America face as it strives to continue its success?

What specific actions has Mall of America taken to address each challenge?

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2

Developing Successful Organizational and Marketing Strategies

LEARNING OBJECTIVES

After reading this chapter you should be able to:

LO 2-1 Describe three kinds of organizations and the three levels of strategy in them.

LO 2-2 Describe core values, mission, organizational culture, business, and goals.

LO 2-3 Explain why managers use marketing dashboards and marketing metrics.

LO 2-4 Discuss how an organization assesses where it is now and where it seeks to be.

LO 2-5 Explain the three steps of the planning phase of the strategic marketing process.

LO 2-6 Describe the four components of the implementation phase of the strategic marketing process.

LO 2-7 Discuss how managers identify and act on deviations from plans.

Making the World a Better Place, One Scoop at a Time!

Ben & Jerry’s started in 1978 when longtime friends Ben Cohen and Jerry Greenfield headed north to Vermont to open an ice cream parlor in a renovated gas station. Buoyed with enthusiasm, $12,000 in borrowed and saved money, and ideas from a $5 correspondence course in ice cream making, Ben and Jerry were off and scooping. Their first flavor? Vanilla—because it’s a universal best seller. Other flavors such as Chunky Monkey, Cherry Garcia, Peanut Butter Cup, and many others soon followed.

The ice cream flavors weren’t the only extraordinary thing about the company though. Ben and Jerry embraced a concept they called “linked prosperity,” which encouraged the success of all constituents including employees, suppliers, customers, and neighbors. They set out to achieve linked prosperity with a three-part mission statement:

Product Mission: To make, distribute and sell the finest quality all-natural ice cream.

Economic Mission: To operate the company for sustainable financial growth.

Social Mission: To operate the company in ways that make the world a better place.

The mission statement guided the entrepreneurs’ decisions related to many aspects of the business including purchasing practices, ingredient sourcing, manufacturing, and involvement in the community.1

Ben and Jerry’s mission-driven approach led them to successfully implement many highly creative organizational and marketing strategies. Some examples include:

Fairtrade. Ben & Jerry’s believes that farmers who grow ingredients for their ice cream products (such as cocoa, coffee, and vanilla) should receive a fair price for their harvest. In return Fairtrade farmers agree to use sustainable farming practices, implement fair working standards, and invest in local communities.

B-Corp Certification. Ben & Jerry’s was one of the first companies involved in the Benefit Corporation movement, which has developed a rigorous set of principles and standards on which to evaluate companies in terms of social and environmental performance, accountability, and transparency. The certification, provided by the nonprofit organization B-Lab, indicates that Ben & Jerry’s is using the power of business to solve social and environmental problems.

Page 27PartnerShop Program. PartnerShops are Ben & Jerry scoop shops that are independently owned and operated by community-based nonprofit organizations. The shops employ youth and young adults who may face barriers to employment to help them build better lives.

As you can see, Ben & Jerry’s has a strong link between its mission and its strategies. CEO Jostein Solheim explains that their purpose at Ben & Jerry’s is “to be part of a global movement that makes changing the world seem fun and achievable.”2

Today, Ben & Jerry’s is owned by Unilever, which is the market leader in the global ice cream industry—one that is expected to reach $74 billion by 2018.3 While customers love Ben & Jerry’s rich premium ice cream, many buy its products to support its social mission. As a testament to its success, Ben & Jerry’s has over 7.5 million fans on Facebook—the most of any premium ice cream marketer!

Rafael Ben-Ari/Alamy

Chapter 2 describes how organizations set goals to provide an overall direction to their organizational and marketing strategies. The marketing department of an organization converts these strategies into plans that must be implemented and then evaluated so deviations can be exploited or corrected based on the marketing environment.

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TODAY’S ORGANIZATIONS

LO 2-1

Describe three kinds of organizations and the three levels of strategy in them.

In studying today’s organizations, it is important to recognize (1) the kinds of organizations that exist, (2) what strategy is, and (3) how this strategy relates to the three levels of structure found in many large organizations.

Kinds of Organizations

Cree is an example of a for-profit organization. Its Cree LED light bulb replaces traditional incandescent bulbs, consumes 85 percent less energy, and lasts 25,000 hours.

H.S. Photos/Alamy

An organization is a legal entity that consists of people who share a common mission. This motivates them to develop offerings (goods, services, or ideas) that create value for both the organization and its customers by satisfying their needs and wants.4 Today’s organizations are of three types: (1) for-profit organizations, (2) nonprofit organizations, and (3) government agencies.

A for-profit organization, often called a business firm, is a privately owned organization such as Target, Nike, or Cree that serves its customers to earn a profit so that it can survive. Profit is the money left after a for-profit organization subtracts its total expenses from its total revenues and is the reward for the risk it undertakes in marketing its offerings.

VIDEO 2-1

Cree® LED Bulb Ad

kerin.tv/13e/v2-1

In contrast, a nonprofit organization is a nongovernmental organization that serves its customers but does not have profit as an organizational goal. Instead, its goals may be operational efficiency or client satisfaction. Regardless, it also must receive sufficient funds above its expenses to continue operations. Organizations like SIRUM and Teach For America, described in the Making Responsible Decisions box, seek to solve the practical needs of society and are often structured as nonprofit organizations.5 For simplicity in the rest of the book, the terms firm, company, and organization are used interchangeably to cover both for-profit and nonprofit organizations.

Last, a government agency is a federal, state, county, or city unit that provides a specific service to its constituents. For example, the Census Bureau, a unit of the U.S. Department of Commerce, is a federal government agency that provides population and economic data.

Organizations that develop similar offerings create an industry, such as the computer industry or the automobile industry.6 As a result, organizations make strategic decisions that reflect the dynamics of the industry to create a compelling and sustainable advantage for their offerings relative to those of competitors to achieve a superior level of performance.7 Much of an organization’s marketing strategy is having a clear understanding of the industry within which it competes.

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Making Responsible Decisions

Social Responsibility

Social Entrepreneurs Are Creating New Types of Organizations to Pursue Social Goals

Each year a growing number of “social entrepreneurs” start new ventures that address important social needs and issues. These new enterprises are often organized as nonprofit organizations that combine traditional approaches for generating revenue with the pursuit of social goals. The issues they have focused on range from health care delivery, to increasing access to education, to improving agricultural efficiency. Some experts predict that these types of social ventures represent the new way of doing business.

Source: Forbes

One indication of the influence of these new types of organizations is Forbes magazine’s annual list of 30 Under 30 Social Entrepreneurs. Each year 30 of the most innovative new social ventures are featured in the article. For example, Kiah Willams left the Clinton Foundation to start SIRUM (Supporting Initiatives to Redistribute Unused Medicine). The organization works with health care systems to distribute unused prescription drugs (that would otherwise be destroyed) to patients who can’t afford to pay for the drugs. “We’re like the Match.com for unused drugs,” explains Williams.

Teach For America is another example of a creative nonprofit organization. Launched by college senior Wendy Kopp, Teach For America is the national corps of outstanding recent college graduates who commit to teach for two years in urban and rural public schools and become lifelong leaders in expanding educational opportunity. Each year more than 10,000 corps members teach 750,000 students.

These examples illustrate how organizations are changing to create value for a broad range of constituents by addressing the needs and challenges of society.

What Is Strategy?

An organization has limited human, financial, technological, and other resources available to produce and market its offerings—it can’t be all things to all people! Every organization must develop strategies to help focus and direct its efforts to accomplish its goals. However, the definition of strategy has been the subject of debate among management and marketing theorists. For our purpose, strategy is an organization’s long-term course of action designed to deliver a unique customer experience while achieving its goals.8 All organizations set a strategic direction. And marketing helps to both set this direction and move the organization there.

The Structure of Today’s Organizations

Large organizations are extremely complex. They usually consist of three organizational levels whose strategies are linked to marketing, as shown in Figure 2–1.

Figure 2–1 The board of directors oversees the three levels of strategy in organizations: corporate, strategic business unit, and functional.

Corporate Level

The corporate level is where top management directs overall strategy for the entire organization. “Top management” usually means the board of directors and senior management officers with a variety of skills and experiences that are invaluable in establishing the organization’s overall strategy.

The president or chief executive officer (CEO) is the highest ranking officer in the organization and is usually a member of its board of directors. This person must possess leadership skills ranging from overseeing the organization’s daily operations to spearheading strategy planning efforts that may determine its very survival.

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Prada manages a portfolio or group of businesses—including perfume, leather goods, and luggage—each of which may be viewed as a strategic business unit (SBU).

Imaginechina via AP Images

In recent years, many large firms have changed the title of the head of marketing from vice president of marketing to chief marketing officer (CMO). These CMOs have an increasingly important role in top management because of their ability to think strategically. Most bring multi-industry backgrounds, cross-functional management expertise, analytical skills, and intuitive marketing insights to their job. These CMOs are increasingly called upon to be their organizations’ “visionaries for the future” by staying in touch with consumers’ needs and wants.9

Strategic Business Unit Level

Some multimarket, multiproduct firms, such as Prada and Johnson & Johnson, manage a portfolio or group of businesses. Each group is a strategic business unit (SBU), which is a subsidiary, division, or unit of an organization that markets a set of related offerings to a clearly defined target market. At the strategic business unit level, managers set a more specific strategic direction for their businesses to exploit value-creating opportunities. For less complex firms with a single business focus, such as Ben & Jerry’s, the corporate and business unit levels may merge.

Functional Level

Each strategic business unit has a functional level, where groups of specialists actually create value for the organization. The term department generally refers to these specialized functions such as marketing and finance (see Figure 2–1). At the functional level, the organization’s strategic direction becomes its most specific and focused. Just as there is a hierarchy of levels within an organization, there is a hierarchy of strategic directions set by managers at each level.

A key role of the marketing department is to look outward by listening to customers, developing offerings, implementing marketing program actions, and then evaluating whether those actions are achieving the organization’s goals. When developing marketing programs for new or improved offerings, an organization’s senior management may form cross-functional teams. These consist of a small number of people from different departments who are mutually accountable to accomplish a task or a common set of performance goals. Sometimes these teams will have representatives from outside the organization, such as suppliers or customers, to assist them.

learning review

2-1. What is the difference between a for-profit and a nonprofit organization?

2-2. What are examples of a functional level in an organization?

STRATEGY IN VISIONARY ORGANIZATIONS

LO 2-2

Describe core values, mission, organizational culture, business, and goals.

To be successful, today’s organizations must be forward-looking. They must anticipate future events and then respond quickly and effectively to those events. In addition, they must thrive in today’s uncertain, chaotic, rapidly changing environment. A visionary organization must specify its foundation (why does it exist?), set a direction (what will it do?), and formulate strategies (how will it do it?), as shown in Figure 2–2.10

Figure 2–2 Today’s visionary organizations use key elements to (1) establish a foundation and (2) set a direction using (3) strategies that enable them to develop and market their products successfully.

Organizational Foundation: Why Does It Exist?

An organization’s foundation is its philosophical reason for being—why it exists. Successful visionary organizations use this foundation to guide and inspire their employees through three elements: core values, mission, and organizational culture.

Core Values

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An organization’s core values are the fundamental, passionate, and enduring principles that guide its conduct over time. A firm’s founders or senior management develop these core values, which are consistent with their essential beliefs and character. They capture the firm’s heart and soul and serve to inspire and motivate its stakeholders—employees, shareholders, board of directors, suppliers, distributors, creditors, unions, government, local communities, and customers. Core values also are timeless and guide the organization’s conduct. To be effective, an organization’s core values must be communicated to and supported by its top management and employees; if not, they are just hollow words.11

Mission

By understanding its core values, an organization can take steps to define its mission, a statement of the organization’s function in society that often identifies its customers, markets, products, and technologies. Often used interchangeably with vision, a mission statement should be clear, concise, meaningful, inspirational, and long-term.12

VIDEO 2-2

Southwest Airlines

kerin.tv/13e/v2-2

Inspiration and focus appear in the mission statement of for-profit organizations, as well as nonprofit organizations and government agencies. For example:

Southwest Airlines: “To be dedicated to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.”13

American Red Cross: “To prevent and alleviate human suffering in the face of emergencies by mobilizing the power of volunteers and the generosity of donors.”14

Federal Trade Commission: “To prevent business practices that are anticompetitive or deceptive or unfair to consumers; to enhance informed consumer choice and public understanding of the competitive process; and to accomplish this without unduly burdening legitimate business activity.”

Each statement exhibits the qualities of a good mission: a clear, challenging, and compelling picture of an envisioned future.15

Recently, many organizations have added a social element to their mission statements to reflect an ideal that is morally right and worthwhile. This is what Ben & Jerry’s social mission statement shows in the chapter opener. Stakeholders, particularly customers, employees, and now society, are asking organizations to be exceptional citizens by providing long-term value while solving society’s problems.

Organizational Culture

Providing a warm, friendly experience is part of Southwest Airlines’ organizational strategy.

Source: Southwest

An organization must connect with all of its stakeholders. Thus, an important corporate-level marketing function is communicating its core values and mission to them. These activities send clear messages to employees and other stakeholders about organizational culture—the set of values, ideas, attitudes, and norms of behavior that is learned and shared among the members of an organization.

Organizational Direction: What Will It Do?

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In the first half of the 20th century, what “business” did railroad executives believe they were in? The text reveals their disastrous error.

Digital Vision

As shown in Figure 2–2, the organization’s foundation enables it to set a direction in terms of (1) the “business” it is in and (2) its specific goals.

Business

A business describes the clear, broad, underlying industry or market sector of an organization’s offering. To help define its business, an organization looks at the set of organizations that sell similar offerings—those that are in direct competition with each other—such as “the ice cream business.” The organization can then begin to answer the questions “What do we do?” or “What business are we in?”

Professor Theodore Levitt saw that 20th-century American railroads defined their business too narrowly, proclaiming, “We are in the railroad business!” This myopic focus caused them to lose sight of who their customers were and what they needed. So railroads failed to develop strategies to compete with airlines, barges, pipelines, and trucks. As a result, many railroads merged or went bankrupt. Railroads should have realized they were in “the transportation business.”16

With today’s increased global competition, many organizations are rethinking their business model, the strategies an organization develops to provide value to the customers it serves. Technological innovation is often the trigger for this business model change. American newspapers are looking for a new business model as former subscribers now get their news online.17 Bookstore retailer Barnes & Noble, too, is rethinking its business model as e-book readers like Amazon’s Kindle and Apple’s iPad have gained widespread popularity.18

Why is UPS changing the definition of its business? See the text for the answer.

Source: UPS

VIDEO 2-3

UPS Ad

kerin.tv/13e/v2-3

United Parcel Service (UPS), the company known for its brown delivery trucks, is redefining its business. The company recently launched a new campaign with the tagline “United Problem Solvers,” which replaced its previous “We Love Logistics” campaign. Some of the language from the campaign explains the new perspective: “Bring us your problems. Your challenges. Your daydreams. Your scribbles. Your just about anything. Because we’re not just in the shipping business. We’re in the problem solving business.” Taking a lesson from Theodore Levitt, UPS now sees itself as a service that can solve important and complicated problems for its customers, rather than a package delivery business.19

Goals

Goals or objectives (terms used interchangeably in this book) are statements of an accomplishment of a task to be achieved, often by a specific time. Goals convert an organization’s mission and business into long- and short-term performance targets. Business firms can pursue several different types of goals:

Profit. Most firms seek to maximize profits—to get as high a financial return on their investments (ROI) as possible.

Sales (dollars or units). If profits are acceptable, a firm may elect to maintain or increase its sales even though profits may not be maximized.

Market share. Market share is the ratio of sales revenue of the firm to the total sales revenue of all firms in the industry, including the firm itself.

Quality. A firm may seek to offer a level of quality that meets or exceeds the cost and performance expectations of its customers.

Customer satisfaction. Customers are the reason the organization exists, so their perceptions and actions are of vital importance. Satisfaction can be measured with surveys or by the number of customer complaints.

Employee welfare. A firm may recognize the critical importance of its employees by stating its goal of providing them with good employment opportunities and working conditions.

Social responsibility. Firms may seek to balance the conflicting goals of stakeholders to promote their overall welfare, even at the expense of profits.

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Nonprofit organizations (such as museums and hospitals) also have goals, such as to serve consumers as efficiently as possible. Similarly, government agencies set goals that seek to serve the public good.

Organizational Strategies: How Will It Do It?

As shown in Figure 2–2, the organizational foundation sets the “why” of organizations and the organizational direction sets the “what.” To convert these into actual results, the organizational strategies are concerned with the “how.” These organizational strategies vary in at least two ways, depending on (1) a strategy’s level in the organization and (2) the offerings an organization provides to its customers.

Variation by Level

Moving down the levels in an organization involves creating increasingly specific, detailed strategies and plans. So, at the corporate level, top managers may struggle with writing a meaningful mission statement; while at the functional level, the issue is who makes tomorrow’s sales call.

Variation by Product

Organizational strategies also vary by the organization’s products. The strategy will be far different when marketing a very tangible physical good (Ben & Jerry’s ice cream), a service (a Southwest Airlines flight), or an idea (a donation to the American Red Cross).

Most organizations develop a marketing plan as a part of their strategic marketing planning efforts. A marketing plan is a road map for the marketing actions of an organization for a specified future time period, such as one year or five years. The planning phase of the strategic marketing process (discussed later) usually results in a marketing plan that directs the marketing actions of an organization. Appendix A at the end of this chapter provides guidelines for writing a marketing plan.

learning review

2-3. What is the meaning of an organization’s mission?

2-4. What is the difference between an organization’s business and its goals?

Tracking Strategic Performance with Marketing Analytics

LO 2-3

Explain why managers use marketing dashboards and marketing metrics.

Although marketing managers can set strategic direction for their organizations, how do they know if they are making progress in getting there? As several industry experts have observed, “You can’t manage what you don’t measure.”20 One answer to this problem is the growing field of data analytics, or big data, which enables data-driven decisions by collecting data and presenting them in a visual format such as a marketing dashboard.

Car Dashboards and Marketing Dashboards

A marketing dashboard is the visual display of the essential information related to achieving a marketing objective.21 Often, active hyperlinks provide further detail. An example is when a chief marketing officer (CMO) wants to see daily what the effect of a new TV advertising campaign is on a product’s sales.22

The idea of a marketing dashboard really comes from the display of information found on a car’s dashboard. On a car’s dashboard, we glance at the fuel gauge and take action when our gas is getting low. With a marketing dashboard, a marketing manager glances at a graph or table and makes a decision whether to take action or to analyze the problem further.23

Dashboards, Metrics, and Plans

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The marketing dashboard of Sonatica, a hypothetical hardware and software firm, appears in Figure 2–3. It shows graphic displays of key performance indicators linked to its product lines.24 Each display in a marketing dashboard shows a marketing metric, which is a measure of the quantitative value or trend of a marketing action or result.25 Choosing which marketing metrics to display is critical for a busy manager, who can be overwhelmed with irrelevant data.26

Figure 2–3 An effective marketing dashboard, like this one from Sonatica, a hypothetical hardware and software firm, helps managers assess a business situation at a glance.

Dundas Data Visualization, Inc.

Today’s marketers use data visualization, which presents information about an organization’s marketing metrics graphically so marketers can quickly (1) spot deviations from plans during the evaluation phase and (2) take corrective actions.27 This book uses data visualization in many figures to highlight in color key points described in the text. The Sonatica marketing dashboard in Figure 2–3 uses data visualization tools like a pie chart, a line or bar chart, and a map to show how parts of its business are performing as of December 2015:

Website Traffic Sources. The color-coded perimeter of the pie chart shows the three main sources of website traffic (referral sites at 47 percent, search engines at 37 percent, and direct traffic at 16 percent). These three colors link to those of the circles in the column of website traffic sources. Of the 47 percent of traffic coming from referral sites, the horizontal bullet graphs to the right show that Sonatica’s Facebook visits comprise 15 percent of total website traffic, up from a month ago (as shown by the vertical line).

Sales Performance by SBU. The spark lines (the wavy lines in the far left column) show the 13-month trends of Sonatica’s strategic business units (SBUs). For example, the trends in electronics and peripherals are generally up, causing their sales to exceed their YTD (year to date) targets. Conversely, both software and hardware sales failed to meet YTD targets, a problem quickly noted by a marketing manager seeing the red “warning” circles in their rows at the far right. This suggests that immediate corrective actions are needed for the software and hardware SBUs.

Website Visits by State. The U.S. map shows that the darker the state, the greater the number of website visits for the current month. For example, Texas has close to 20,000 visits per month, while Illinois has none.

Applying Marketing Metrics

How Well Is Ben & Jerry’s Doing?

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As the marketing manager for Ben & Jerry’s, you need to assess how it is doing within the United States in the super-premium ice cream market in which it competes. For this, you choose two marketing metrics: dollar sales and dollar market share.

Your Challenge

Scanner data from checkout counters in supermarkets and other retailers show the total industry sales of super-premium ice cream were $1.25 billion in 2015. Internal company data show you that Ben & Jerry’s sold 50 million units at an average price of $5.00 per unit in 2015. A “unit” in super-premium ice cream is one pint.

Your Findings

Dollar sales and dollar market share can be calculated for 2015 using simple formulas and displayed on the Ben & Jerry’s marketing dashboard as follows:

Dollar sales

(

$

)

=

Average price

×

Quantity sold

=

$5.00

×

50

million units

=

$250

million

Dollar market share

(

%

)

=

Ben & Jerry’s sales

(

$

)

Total industry sales

(

$

)

=

$250

million

$1.25

billion

=

0.20

or

20%

Your dashboard displays show that from 2014 to 2015 dollar sales increased from $240 million to $250 million and that dollar market share grew from 18.4 to 20.0 percent.

Your Action

The results need to be compared with the goals established for these metrics. In addition, they should be compared with previous years’ results to see if the trends are increasing, flat, or decreasing. This will lead to marketing actions.

The Ben & Jerry’s dashboard in the Applying Marketing Metrics box shows how the two widely used marketing metrics of dollar sales and dollar market share can help the company assess its growth performance from 2014 to 2015. The Applying Marketing Metrics boxes in later chapters highlight other key marketing metrics and how they can lead to marketing actions.

SETTING STRATEGIC DIRECTIONS

LO 2-4

Discuss how an organization assesses where it is now and where it seeks to be.

To set a strategic direction, an organization needs to answer two difficult questions: (1) Where are we now? and (2) Where do we want to go?

A Look Around: Where Are We Now?

Asking an organization where it is at the present time involves identifying its competencies, customers, and competitors.

Competencies

Senior managers must ask the question: What do we do best? The answer involves an assessment of the organization’s core competencies, which are its special capabilities—the skills, technologies, Page 36 and resources—that distinguish it from other organizations and provide customer value. Exploiting these competencies can lead to success.28 Competencies should be distinctive enough to provide a competitive advantage, a unique strength relative to competitors that provides superior returns, often based on quality, time, cost, or innovation.29

Lands’ End’s unconditional guarantee for its products highlights its focus on customers.

Rick Armstrong

Customers

Ben & Jerry’s customers are ice cream and frozen yogurt eaters who have different preferences (form, flavor, health, and convenience). Medtronic’s pacemaker customers include cardiologists and heart surgeons who serve patients that need this type of device. Lands’ End communicates a remarkable commitment to its customers and its product quality with these unconditional words:

Guaranteed. Period.®

The Lands’ End website points out that this guarantee has always been an unconditional one. It reads: “If you’re not satisfied with any item, simply return it to us at any time for an exchange or refund of its purchase price.” But to get the message across more clearly to its customers, it created the two-word guarantee. The point is that Lands’ End’s strategy must provide genuine value to customers to ensure that they have a satisfying experience.30

Competitors

In today’s global marketplace, the distinctions among competitors are increasingly blurred. Lands’ End started as a catalog retailer. But today, Lands’ End competes with not only other clothing catalog retailers but also traditional department stores, mass merchandisers, and specialty shops. Even well-known clothing brands such as Liz Claiborne now have their own chain stores. Although only some of the clothing in any of these stores directly competes with Lands’ End offerings, all of these retailers have websites to sell their offerings over the Internet. This means there’s a lot of competition out there.

Growth Strategies: Where Do We Want to Go?

Knowing where the organization is at the present time enables managers to set a direction for the firm and allocate resources to move in that direction. Two techniques to aid managers with these decisions are (1) business portfolio analysis and (2) diversification analysis.

Business Portfolio Analysis

Successful organizations have a portfolio or range of offerings (products and services) that possess different growth rates and market shares within the industry in which they operate. The Boston Consulting Group (BCG), an internationally known management consulting firm, has developed business portfolio analysis. It is a technique that managers use to quantify performance measures and growth targets to analyze their firms’ SBUs as though they were a collection of separate investments.31 The purpose of this tool is to determine which SBU or offering generates cash and which one requires cash to fund the organization’s growth opportunities.

Marketing Matters

Technology

Filling the Shoes of Apple CEO Tim Cook: Where Will Apple’s Projected Future Growth for Its Major SBUs Come From?

Page 37

Every CEO of a for-profit organization faces one problem in common: trying to find ways to increase future sales and profits to keep it growing!

Put yourself in Tim Cook’s shoes. One of his jobs is to search for new growth opportunities. Using your knowledge about Apple products, do a quick analysis of four SBUs shown below to determine where Apple should allocate its time and resources. Rate these growth opportunities from highest to lowest in terms of percentage growth in unit sales from 2015 to 2018:

We’ll walk you through possible answers. You then can evaluate your performance over the next two pages and decide whether you’re really ready for Mr. Cook’s job!

iPod

iPhone

iPad/iPad mini

Apple Watch

All product photos: Source: Apple Inc.

As described in the Marketing Matters box, let’s assume you are filling the shoes of Apple CEO Tim Cook. Based on your knowledge of Apple products, you are currently conducting a quick analysis of four major Apple SBUs through 2018. Try to rank them from highest to lowest in terms of percentage growth in expected unit sales. We will introduce you to business portfolio analysis as we look at the possible future of the four Apple SBUs.

The BCG business portfolio analysis requires an organization to locate the position of each of its SBUs on a growth-share matrix (see Figure 2–4). The vertical axis is the market growth rate, which is the annual rate of growth of the SBU’s industry. The horizontal axis is the relative market share, defined as the sales of the SBU divided by the sales of the largest firm in the industry. A relative market share of 10× (at the left end of the scale) means that the SBU has 10 times the share of its largest competitor, whereas a share of 0.1× (at the right end of the scale) means it has only 10 percent of the share of its largest competitor.

Figure 2–4 Boston Consulting Group (BCG) business portfolio analysis for four of Apple’s consumer-related SBUs. The red arrow indicates typical movement of a product through the matrix.

All product photos: Source: Apple Inc.

The BCG has given specific names and descriptions to the four resulting quadrants in its growth-share matrix based on the amount of cash they generate for or require from the organization:

Question marks are SBUs with a low share of high-growth markets. They require large injections of cash just to maintain their market share, much less increase it. The name implies management’s dilemma for these SBUs: choosing the right ones to invest in and phasing out the rest.

Stars are SBUs with a high share of high-growth markets that may need extra cash to finance their own rapid future growth. When their growth slows, they are likely to become cash cows.

Cash cows are SBUs that generate large amounts of cash, far more than they can use. They have dominant shares of slow-growth markets and provide cash to cover the organization’s overhead and to invest in other SBUs.

Dogs are SBUs with low shares of slow-growth markets. Although they may generate enough cash to sustain themselves, they may no longer be or may not become real winners for the organization. Dropping SBUs that are dogs may be required if they consume more cash than they generate, except when relationships with other SBUs, competitive considerations, or potential strategic alliances exist.32

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An organization’s SBUs often start as question marks and go counterclockwise around Figure 2–4 to become stars, then cash cows, and finally dogs. Because an organization has limited influence on the market growth rate, its main objective is to try to change its relative dollar or unit market share. To do this, management decides what strategic role each SBU should have in the future and either injects cash into or removes cash from it.

What can Apple expect in future growth of sales revenues from its iPhone products…

Source: Apple Inc.

According to Interbrand, a leading brand management consulting firm, Apple has been consistently cited as one of the top global brands over the past decade in its annual Best Global Brands survey. What has made Apple so iconic is not only its revolutionary products but also its commitment to infusing the “human touch” with its technology such that its customers connect with the brand on both a cognitive and an emotional level. The late Steve Jobs was instrumental in creating Apple’s organizational culture and core values that will continue to guide its future.33

Using the BCG business portfolio analysis framework, Figure 2–4 shows that the Apple picture might look this way from 2015 to 2018 for four of its SBUs:34

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Apple Watch (wearable technology). Apple entered the wearable technology market in April 2015 with its version of a smart watch, the Apple Watch. The watch competes with Samsung, Pebble, and Motorola watches and a wide range of other wearable technologies such as Fitbit and Jawbone fitness trackers. The market grew at a rate of more than 100 percent in 2015, and Apple Watch sales were substantial despite a relatively high price and short battery life. The Apple watch enters the market as a question mark and awaits consumers’ response.35

…or its iPod devices?

Source: Apple Inc.

iPhone (smartphones). Apple launched its revolutionary iPhone smartphone in 2007. iPhone unit sales skyrocketed and Apple’s U.S. market share has grown to 47.7 percent, exceeding the market share of its largest competitor, Samsung. The smartphone market is expected to grow at an annual rate of 9.8 percent through 2018 due to growth in China and falling prices. High market share and high growth suggest that Apple’s iPhone is a star.36

iPad/iPad mini (tablets). Launched in 2010, iPad unit sales reached 40 percent market share by 2013—leading both Samsung’s Galaxy (18 percent) and Amazon’s Kindle (4 percent). Tablet sales are increasing although the rate of growth is plummeting as consumers are substituting big-screen smartphones, or “phablets,” for tablets. For Apple, its iPad SBU is a cash cow (high market share in a low-growth market).37

iPod (music players). Apple entered the music player market with its iPod device in 2001. The product became a cultural icon, selling more that 50 million units annually until 2010 when the iPhone integrated a music player. Since 2010 sales have been declining dramatically and in October 2014 Apple announced that it was discontinuing the iPod classic. Today Apple still sells three iPod product lines—the nano, the shuffle, and the touch—although declining sales and discontinued products suggest that this SBU is entering the dog category.38

So, how did you—as Tim Cook—rank the growth opportunity for each of the four SBUs? The Apple Watch represents the highest unit growth rate at more than 100 percent. The iphone SBU is likely to continue growing at almost 10 percent, while the iPad SBU is experiencing a declining growth rate. Despite the difference in growth rates, the iPhone and iPad product lines together accounted for 72 percent of Apple’s revenues in 2014. These revenues are used to pursue growth opportunities such as the Apple Watch, a next generation phone, and a huge 13-inch iPad. Finally, no growth and the discontinuation of the iPod classic may signal the beginning of the end for Apple’s iPod.39

The primary strength of business portfolio analysis lies in forcing a firm to place each of its SBUs in the growth-share matrix, which in turn suggests which SBUs will be cash producers and cash users in the future. Weaknesses of this analysis arise from the difficulty in (1) getting the needed information and (2) incorporating competitive data into business portfolio analysis.40

Diversification Analysis

Diversification analysis is a technique that helps a firm search for growth opportunities from among current and new markets as well as current and new products.41 For any market, there is both a current product (what the firm now sells) and a new product (what the firm might sell in the future). And for any product there is both a current market (the firm’s existing customers) and a new market (the firm’s potential customers). As Ben & Jerry’s seeks to increase sales revenues, it considers all four market-product strategies shown in Figure 2–5:

VIDEO 2-4

B&J’s Bonnaroo Buzz Ad

kerin.tv/13e/v2-4

Market penetration is a marketing strategy to increase sales of current products in current markets, such as selling more Ben & Jerry’s Bonnaroo Buzz Fair Trade–sourced ice cream to U.S. consumers. There is no change in either the basic product line or the markets served. Increased sales are generated by selling either more ice cream (through better promotion or distribution) or the same amount of ice cream at a higher price to its current customers.

Market development is a marketing strategy to sell current products to new markets. For Ben & Jerry’s, Brazil is an attractive new market. There is good news and bad news for this strategy: As household incomes of Brazilians increase, consumers can buy more ice cream; however, the Ben & Jerry’s brand may be unknown to Brazilian consumers.

Product development is a marketing strategy of selling new products to current markets. Ben & Jerry’s could leverage its brand by selling children’s clothing in Page 40the United States. This strategy is risky because Americans may not see the company’s expertise in ice cream as extending to children’s clothing.

Diversification is a marketing strategy of developing new products and selling them in new markets. This is a potentially high-risk strategy for Ben & Jerry’s if it decides to try to sell Ben & Jerry’s branded clothing in Brazil. Why? Because the firm has neither previous production nor marketing experience from which to draw in marketing clothing to Brazilian consumers.

Figure 2–5 Four market-product strategies: alternative ways to expand sales revenues for Ben & Jerry’s using diversification analysis.

learning review

2-5. What is the difference between a marketing dashboard and a marketing metric?

2-6. What is business portfolio analysis?

2-7. Explain the four market-product strategies in diversification analysis.

THE STRATEGIC MARKETING PROCESS

LO 2-5

Explain the three steps of the planning phase of the strategic marketing process.

After an organization assesses where it is and where it wants to go, other questions emerge, such as:

How do we allocate our resources to get where we want to go?

How do we convert our plans into actions?

How do our results compare with our plans, and do deviations require new plans?

To answer these questions, an organization uses the strategic marketing process, whereby an organization allocates its marketing mix resources to reach its target markets. This process is divided into three phases: planning, implementation, and evaluation, as shown in Figure 2–6.

Figure 2–6 The strategic marketing process has three vital phases: planning, implementation, and evaluation. The figure also indicates the chapters in which these phases are discussed in the text.

The Planning Phase of the Strategic Marketing Process

Figure 2–6 shows the three steps in the planning phase of the strategic marketing process: (1) situation (SWOT) analysis, (2) market-product focus and goal setting, and (3) the marketing program.

Step 1: Situation (SWOT) Analysis

The essence of situation analysis is taking stock of where the firm or product has been recently, where it is now, and where it Page 41is headed in terms of the organization’s marketing plans and the external forces and trends affecting it. An effective summary of a situation analysis is a SWOT analysis, an acronym describing an organization’s appraisal of its internal Strengths and Weaknesses and its external Opportunities and Threats.

The SWOT analysis is based on an exhaustive study of four areas that form the foundation upon which the firm builds its marketing program:

Identify trends in the organization’s industry.

Analyze the organization’s competitors.

Assess the organization itself.

Research the organization’s present and prospective customers.

Assume you are responsible for doing the SWOT analysis for Ben & Jerry’s shown in Figure 2–7. Note that the SWOT table has four cells formed by the combination of internal versus external factors (the rows) and favorable versus unfavorable factors (the columns) that identify Ben & Jerry’s strengths, weaknesses, opportunities, and threats.

Figure 2–7 Ben & Jerry’s: A SWOT analysis to keep it growing. The picture painted in this SWOT analysis is the basis for management actions.

How can Ben & Jerry’s develop new products and social responsibility programs that contribute to its mission? The text describes how the strategic marketing process and its SWOT analysis can help.

Mike Hruby

The task is to translate the results of the SWOT analysis into specific marketing actions that will help the firm grow. The ultimate goal is to identify the critical strategy-related factors that impact the firm and then build on vital strengths, correct glaring weaknesses, exploit significant opportunities, and avoid disaster-laden threats.

The Ben & Jerry’s SWOT analysis in Figure 2–7 can be the basis for these kinds of specific marketing actions. An action in each of the four cells might be:

Build on a strength. Find specific efficiencies in distribution with parent-company Unilever’s existing ice cream brands.

Correct a weakness. Recruit experienced managers from other consumer product firms to help stimulate growth.

Exploit an opportunity. Develop new product lines of low-fat, low-carb frozen Greek-style yogurt flavors to respond to changes in consumer tastes.

Avoid a disaster-laden threat. Focus on less risky international markets, such as Brazil and Argentina.

Step 2: Market-Product Focus and Goal Setting

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Determining which products will be directed toward which customers (step 2 of the planning phase in Figure 2–6) is essential for developing an effective marketing program (step 3). This decision is often based on market segmentation, which involves aggregating prospective buyers into groups, or segments, that (1) have common needs and (2) will respond similarly to a marketing action. This enables an organization to focus specific marketing programs on its target market segments. The match between products and segments is often related to points of difference, or those characteristics of a product that make it superior to competitive substitutes. Goal setting involves specifying measurable marketing objectives to be achieved.

So step 2 in the planning phase of the strategic marketing process—deciding which products will be directed toward which customers—is the foundation for step 3, developing the marketing program.

Step 3: Marketing Program

Activities in step 2 tell the marketing manager which customers to target and which customer needs the firm’s product offerings can satisfy—the who and what aspects of the strategic marketing process. The how aspect—step 3 in the planning phase—involves developing the program’s marketing mix (the four Ps) and its budget. Figure 2–8 shows that each marketing mix element is combined to provide a cohesive marketing program.

Figure 2–8 The four Ps elements of the marketing mix must be blended to produce a cohesive marketing program.

Putting a marketing program into effect requires that the firm commit time and money to it in the form of a sales forecast (see Chapter 8) and budget that must be approved by top management.

learning review

2-8. What are the three steps of the planning phase of the strategic marketing process?

2-9. What are points of difference and why are they important?

The Implementation Phase of the Strategic Marketing Process

Page 43

LO 2-6

Describe the four components of the implementation phase of the strategic marketing process.

As shown in Figure 2–6, the result of the hours spent in the planning phase of the strategic marketing process is the firm’s marketing plan. Implementation, the second phase of the strategic marketing process, involves carrying out the marketing plan that emerges from the planning phase. If the firm cannot execute the marketing plan—in the implementation phase—the planning phase wasted time and resources.

There are four components of the implementation phase: (1) obtaining resources, (2) designing the marketing organization, (3) defining precise tasks, responsibilities, and deadlines, and (4) actually executing the marketing program designed in the planning phase.

Obtaining Resources

A key task in the implementation phase of the strategic marketing process is finding adequate human and financial resources to execute the marketing program successfully. Small business owners often obtain funds from savings, family, friends, and bank loans. Marketing managers in existing organizations obtain these resources by getting top management to divert profits from BCG stars or cash cows.

Designing the Marketing Organization

A marketing program needs a marketing organization to implement it. Figure 2–9 shows the organization chart of a typical manufacturing firm, giving some details of the marketing department’s structure. Four managers of marketing activities are shown to report to the vice president of marketing or CMO. Several regional sales managers and an international sales manager may report to the manager of sales. The product or brand managers and their subordinates help plan, implement, and evaluate the marketing plans for their offerings. However, the entire marketing organization is responsible for converting these marketing plans into realistic marketing actions.

Figure 2–9 Organization of a typical manufacturing firm, showing a breakdown of the marketing department.

Defining Precise Tasks, Responsibilities, and Deadlines

Successful implementation requires that team members know the tasks for which they are responsible and the deadlines for completing them. To implement the thousands of tasks on a new aircraft design, Lockheed Martin typically holds weekly program meetings. The Page 44outcome of each of these meetings is an action item list, an aid to implementing a marketing plan consisting of four columns: (1) the task, (2) the person responsible for completing that task, (3) the date to finish the task, and (4) what is to be delivered. Within hours of completing a program meeting, the action item list is circulated to those attending. This then serves as the starting agenda for the next meeting. Meeting minutes are viewed as secondary and backward-looking. Action item lists are forward-looking, clarify the targets, and put strong pressure on people to achieve their designated tasks by the deadline.

Suppose, for example, that you and two friends undertake a term project on the problem, “How can the college increase attendance at its performing arts concerts?” The instructor says the term project must involve a mail survey of a sample of students, and the written report with the survey results must be submitted by the end of the 11-week quarter. To begin, you identify all the project tasks and then estimate the time required to complete each one. To complete it in 11 weeks, your team must plan which activities can be done concurrently (at the same time) to save time.

Scheduling activities can be done efficiently with a Gantt chart, which is a graph of a program schedule. Figure 2–10 shows a Gantt chart—invented by Henry L. Gantt—used to schedule the class project, demonstrating how the concurrent work on several tasks enables the students to finish the project on time. Software applications such as Microsoft Project simplify the task of developing a program schedule or Gantt chart.

Figure 2–10 This Gantt chart shows how three students (A, B, and C) can schedule tasks to complete a term project on time. Software applications, such as Microsoft Project, simplify the task of developing a program schedule or Gantt chart.

The key to all scheduling techniques is to distinguish tasks that must be done sequentially from those that can be done concurrently. For example, Tasks 1 and 2 that are shaded yellow in Figure 2–10 must be done sequentially. This is because in order to type and copy the final questionnaire before mailing (Task 2), the student must have a final draft of the questionnaire (Task 1). In contrast, Tasks 6 and 7 that are shaded blue can be done concurrently. So writing the final report (Task 7) can be started before tabulating the questions (Task 6) is completed. This overlap speeds up project completion.

Executing the Marketing Program

Marketing plans are meaningless without effective execution of those plans. This requires attention to detail for both marketing strategies and marketing tactics. A marketing strategy is the means by which a marketing goal Page 45is to be achieved, usually characterized by a specified target market and a marketing program to reach it. The term implies both the end sought (target market) and the means or actions to achieve it (marketing program).

To implement a marketing program successfully, hundreds of detailed decisions are often required to develop the actions that comprise a marketing program for an offering. These actions, called marketing tactics, are detailed day-to-day operational marketing actions for each element of the marketing mix that contribute to the overall success of marketing strategies. Writing ads and setting prices for new product lines are examples of marketing tactics.

The Evaluation Phase of the Strategic Marketing Process

LO 2-7

Discuss how managers identify and act on deviations from plans.

The evaluation phase of the strategic marketing process seeks to keep the marketing program moving in the direction set for it (see Figure 2–6). Accomplishing this requires the marketing manager to (1) compare the results of the marketing program with the goals in the written plans to identify deviations and (2) act on these deviations—exploiting positive deviations and correcting negative ones.

Comparing Results with Plans to Identify Deviations

At the end of its fiscal year, which is September 30, Apple begins the evaluation phase of its strategic marketing process. Suppose you are on an Apple task force in late 2005 that is responsible for making plans through 2014. You observe that extending the 2000–2005 trend of Apple’s recent sales revenues (line AB in Figure 2–11) to 2014 along line BC shows an annual growth in sales revenue unacceptable to Apple’s management.

Figure 2–11 The evaluation phase of the strategic marketing process requires that the organization compare actual results with goals to identify and act on deviations to fill in its “planning gap.” The text describes how Apple is working to fill in its planning gap.

Apple logos: Left: Mickey Pfleger/LIFE Images/Getty Images; Right: Jerome Favre/Bloomberg via Getty Images; Computer: Source: Apple Inc.

Looking at potential new products in the Apple pipeline, your task force set an aggressive annual sales growth target of 25 percent per year—the line BD in Figure 2–11. This would give sales revenues of $42 billion in 2010 and $104 billion in 2014.

This reveals a gray wedge-shaped gap DBC in the figure. Planners call this the planning gap, the difference between the projection of the path to reach a new sales revenue goal (line BD) and the projection of the path of a plan already in place (line BC). The ultimate purpose of the firm’s marketing program is to “fill in” this planning gap—in the case of your Apple task force, to move its future sales revenue line from the slow-growth line BC up to the more challenging target of line BD.

This is the essence of evaluation: comparing actual results with goals set. To reach aggressive growth targets in sales revenues, firms like Apple must continuously look for a new BCG SBU or product cash cow or star.

Acting on Deviations

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When evaluation shows that actual performance differs from expectations, managers need to take immediate marketing actions—exploiting positive deviations and correcting negative ones. Comparing the explosion in Apple’s actual sales revenues from 2006 to 2014 (line BE in Figure 2–11) to its target sales revenues (line BD) shows Apple’s rare, world-class ability to both generate and anticipate consumer demand and commercialize new technologies for its revolutionary offerings. Let’s consider some of its marketing actions:

Exploiting a positive deviation. Favorable customer reactions to Apple’s iPhone (2007) and its iPad (2010) enable it to sell the products globally and to introduce improved versions and models, such as the iPad mini (2012) and the Apple Watch (2015).

Correcting a negative deviation. As Apple’s desktop PCs became dated, it moved aggressively to replace them with new iMacs and MacBooks. Also, Apple refreshed its MacBook Air and MacBook Pro lines of laptops (2013).

As we saw earlier in the BCG business portfolio analysis of the four Apple product lines, the firm has several stars and cash cows to fill in its planning gap. We shall explore Apple’s market-product strategies in more detail later in Chapters 9 and 10.

learning review

2-10. What is the implementation phase of the strategic marketing process?

2-11. How do the goals set for a marketing program in the planning phase relate to the evaluation phase of the strategic marketing process?Page 47

LEARNING OBJECTIVES REVIEW

LO 2-1 Describe three kinds of organizations and the three levels of strategy in them.

An organization is a legal entity that consists of people who share a common mission. It develops offerings (goods, services, or ideas) that create value for both the organization and its customers by satisfying their needs and wants. Today’s organizations are of three types: for-profit organizations, nonprofit organizations, and government agencies. A for-profit organization serves its customers to earn a profit so that it can survive. Profit is the money left after a for-profit organization subtracts its expenses from its total revenues and is the reward for the risk it undertakes in marketing its offerings. A nonprofit organization is a nongovernmental organization that serves its customers but does not have profit as an organizational goal. Instead, its goals may be operational efficiency or client satisfaction. A government agency is a federal, state, county, or city unit that provides a specific service to its constituents. Most large for-profit and nonprofit organizations are divided into three levels of strategy: (a) the corporate level, where top management directs overall strategy for the entire organization; (b) the strategic business unit level, where managers set a more specific strategic direction for their businesses to exploit value-creating opportunities; and (c) the functional level, where groups of specialists actually create value for the organization.

LO 2-2 Describe core values, mission, organizational culture, business, and goals.

Organizations exist to accomplish something for someone. To give organizations direction and focus, they continuously assess their core values, mission, organizational culture, business, and goals. Today’s organizations specify their foundation, set a direction, and formulate strategies—the “why,” “what,” and “how” factors, respectively. Core values are the organization’s fundamental, passionate, and enduring principles that guide its conduct over time. The organization’s mission is a statement of its function in society, often identifying its customers, markets, products, and technologies. Organizational culture is a set of values, ideas, attitudes, and norms of behavior that is learned and shared among the members of an organization. To answer the question, “What business are we in?” an organization defines its “business”—the clear, broad, underlying industry category or market sector of its offering. Finally, the organization’s goals (or objectives) are statements of an accomplishment of a task to be achieved, often by a specific time.

LO 2-3 Explain why managers use marketing dashboards and marketing metrics.

Marketing managers use marketing dashboards to visually display on a single computer screen the essential information required to make a decision to take an action or further analyze a problem. This information consists of key performance measures of a product category, such as sales or market share, and is known as a marketing metric, which is a measure of the quantitative value or trend of a marketing activity or result. Most organizations tie their marketing metrics to the quantitative objectives established in their marketing plan, which is a road map for the marketing activities of an organization for a specified future time period, such as one year or five years.

LO 2-4 Discuss how an organization assesses where it is now and where it seeks to be.

Managers of an organization ask two key questions to set a strategic direction. The first question, “Where are we now?” requires an organization to (a) reevaluate its competencies to ensure that its special capabilities still provide a competitive advantage; (b) assess its present and prospective customers to ensure they have a satisfying customer experience—the central goal of marketing today; and (c) analyze its current and potential competitors from a global perspective to determine whether it needs to redefine its business.

The second question, “Where do we want to go?” requires an organization to set a specific direction and allocate resources to move it in that direction. Business portfolio and diversification analyses help an organization do this. Managers use business portfolio analysis to assess the organization’s strategic business units (SBUs), product lines, or individual products as though they were a collection of separate investments (cash cows, stars, question marks, and dogs) to determine the amount of cash each should receive. Diversification analysis is a tool that helps managers use one or a combination of four strategies to increase revenues: market penetration (selling more of an existing product to existing markets); market development (selling an existing product to new markets); product development (selling a new product to existing markets); and diversification (selling new products to new markets).

LO 2-5 Explain the three steps of the planning phase of the strategic marketing process.

An organization uses the strategic marketing process to allocate its marketing mix resources to reach its target markets. This process is divided into three phases: planning, implementation, and evaluation. The planning phase consists of (a) a situation (SWOT) analysis, which involves taking stock of where the firm or product has been recently, where it is now, and where it is headed and focuses on the organization’s internal factors (strengths and weaknesses) and the external forces and trends affecting it (opportunities and threats); (b) a market-product focus through market segmentation (grouping buyers into segments with common needs and similar responses to marketing programs) and goal setting, which in part requires creating points of difference (those characteristics of a product that make it superior to competitive substitutes); and (c) a marketing program that specifies the budget and actions (marketing strategies and tactics) for each marketing mix element.

LO 2-6 Describe the four components of the implementation phase of the strategic marketing process.

The implementation phase of the strategic marketing process carries out the marketing plan that emerges from the planning phase. It has four key components: (a) obtaining resources; (b) Page 48designing the marketing organization to perform product management, marketing research, sales, and advertising and promotion activities; (c) developing schedules to identify the tasks that need to be done, the time that is allocated to each one, the people responsible for each task, and the deadlines for each task—often with an action item list and Gantt chart; and (d) executing the marketing strategies, which are the means by which marketing goals are to be achieved, and their associated marketing tactics, which are the detailed day-to-day marketing actions for each element of the marketing mix that contribute to the overall success of a firm’s marketing strategies. These are the marketing program actions a firm takes to achieve the goals set forth in its marketing plan.

LO 2-7 Discuss how managers identify and act on deviations from plans.

The evaluation phase of the strategic marketing process seeks to keep the marketing program moving in the direction that was established in the marketing plan. This requires the marketing manager to compare the results from the marketing program with the marketing plan’s goals to (a) identify deviations or “planning gaps” and (b) take corrective actions to exploit positive deviations or correct negative ones.

LEARNING REVIEW ANSWERS

2-1 What is the difference between a for-profit and a nonprofit organization?

Answer: A for-profit organization is a privately owned organization that serves its customers to earn a profit so that it can survive. A nonprofit organization is a nongovernmental organization that serves its customers but does not have profit as an organizational goal. Instead, its goals may be operational efficiency or client satisfaction.

2-2 What are examples of a functional level in an organization?

Answer: The functional level in an organization is where groups of specialists from the marketing, finance, manufacturing/operations, accounting, information systems, research and development, and/or human resources departments focus on a specific strategic direction to create value for the organization.

2-3 What is the meaning of an organization’s mission?

Answer: A mission is a clear, concise, meaningful, inspirational, and long-term statement of the organization’s function in society, often identifying its customers, markets, products, and technologies. It is often used interchangeably with vision.

2-4 What is the difference between an organization’s business and its goals?

Answer: An organization’s business describes the clear, broad, underlying industry or market sector of an organization’s offering. An organization’s goals (or objectives) are statements of an accomplishment of a task to be achieved, often by a specific time. Goals convert an organization’s mission and business into long- and short-term performance targets to measure how well it is doing.

2-5 What is the difference between a marketing dashboard and a marketing metric?

Answer: A marketing dashboard is the visual computer display of the essential information related to achieving a marketing objective. Each variable displayed in a marketing dashboard is a marketing metric, which is a measure of the quantitative value or trend of a marketing action or result.

2-6 What is business portfolio analysis?

Answer: Business portfolio analysis is a technique that managers use to quantify performance measures and growth targets to analyze their firms’ SBUs as though they were a collection of separate investments. The purpose of this tool is to determine which SBU or offering generates cash and which one requires cash to fund the organization’s growth opportunities.

2-7 Explain the four market-product strategies in diversification analysis.

Answer: The four market-product strategies in diversification analysis are: (1) Market penetration, which is a marketing strategy to increase sales of current products in current markets. There is no change in either the basic product line or the markets served. Rather, selling more of the product or selling the product at a higher price generates increased sales. (2) Market development, which is a marketing strategy to sell current products to new markets. (3) Product development, which is a marketing strategy of selling new products to current markets. (4) Diversification, which is a marketing strategy of developing new products and selling them in new markets. This is a potentially high-risk strategy because the firm has neither previous production nor marketing experience on which to draw in marketing a new product to a new market.

2-8 What are the three steps of the planning phase of the strategic marketing process?

Answer: The three steps of the planning phase of the strategic marketing process are: (1) Situation analysis, which involves taking stock of where the firm or product has been recently, where it is now, and where it is headed in terms of the organization’s marketing plans and the external forces and trends affecting it. To do this, an organization uses a SWOT analysis, an acronym that describes an organization’s appraisal of its internal Strengths and Weaknesses and its external Opportunities and Threats. (2) Market-product focus and goal setting, which determine what products an organization will offer to which customers. This is often based on market segmentation—aggregating prospective buyers into groups or segments that have common needs and will respond similarly to a marketing action. (3) Marketing program, which is where an organization develops the marketing mix elements and budget for each offering.

2-9 What are points of difference and why are they important?

Answer: Points of difference are those characteristics of a product that make it superior to competitive substitutes—offerings the organization faces in the marketplace. They are important factors in the success or failure of a new product.

2-10 What is the implementation phase of the strategic marketing process?

Answer: The implementation phase carries out the marketing plan that emerges from the planning phase and consists of: (1) obtaining resources; (2) designing the marketing organization; (3) defining precise tasks, responsibilities, and deadlines; and (4) executing the marketing program designed in the planning phase.

2-11 How do the goals set for a marketing program in the planning phase relate to the evaluation phase of the strategic marketing process?

Answer: The planning phase goals or objectives are used as the benchmarks with which the actual performance results are compared in the evaluation phase to identify deviations from the written marketing plans and then exploit positive ones or correct negative ones.Page 49

FOCUSING ON KEY TERMS

business, 32

business portfolio analysis, 36

core values, 31

diversification analysis, 39

goals (objectives), 32

market segmentation, 42

market share, 32

marketing dashboard, 33

marketing metric, 34

marketing plan, 33

marketing strategy, 44

marketing tactics, 45

mission, 31

objectives (goals), 32

organizational culture, 31

points of difference, 42

profit, 28

situation analysis, 40

strategic marketing process, 40

strategy, 29

SWOT analysis, 41

APPLYING MARKETING KNOWLEDGE

(a) Using Medtronic as an example, explain how a mission statement gives it a strategic direction. (b) Create a mission statement for your own career.

What competencies best describe (a) your college or university and (b) your favorite restaurant?

Compare the advantages and disadvantages of Ben & Jerry’s attempting to expand sales revenues by using (a) a product development strategy or (b) a market development strategy.

Select one strength, one weakness, one opportunity, and one threat from the Ben & Jerry’s SWOT analysis shown in Figure 2–7. Suggest an action that a B&J marketing manager might take to address each factor.

What is the main result of each of the three phases of the strategic marketing process? (a) planning, (b) implementation, and (c) evaluation.

Parts of Tasks 5 and 6 in Figure 2–10 are done both concurrently and sequentially. (a) How can this be? (b) How does it help the students meet the term paper deadline? (c) What is the main advantage of scheduling tasks concurrently rather than sequentially?

The goal-setting step in the planning phase of the strategic marketing process sets quantified objectives for use in the evaluation phase. What does a manager do if measured results fail to meet objectives? Exceed objectives?

BUILDING YOUR MARKETING PLAN

Read Appendix A, “Building an Effective Marketing Plan.” Then write a 600-word executive summary for the Paradise Kitchens marketing plan using the numbered headings shown in the plan. When you have completed the draft of your own marketing plan, write a 600-word executive summary to go in the front of your own marketing plan.

Using Chapter 2 and Appendix A as guides, focus your marketing plan by (a) writing your mission statement in 25 words or less, (b) listing three nonfinancial goals and three financial goals, (c) writing your competitive advantage in 35 words or less, and (d) creating a SWOT analysis table.

Draw a simple organization chart for your organization.

Video Case 2 Video Case 2: IBM: Using Strategy to Build a “Smarter Planet”

VIDEO 2-5

IBM Video Case

kerin.tv/13e/v2-5

“‘Smarter Planet’ is not an advertising campaign, it’s not even a marketing campaign, it is a business strategy,” explains Ann Rubin, vice president of advertising at IBM.

The “Smarter Planet” strategy is based on the idea that the next major revolution in the global marketplace will be the instrumentation and integration of the world’s processes and infrastructures, generating unprecedented amounts of data. The data captured and analyzed in industries such as banking, energy, health care, and retailing will allow IBM to help businesses be more efficient, productive, and responsive.

THE COMPANY

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Peter Probst / Alamy

Founded in 1911, IBM has a history of innovation and focus on customers. The blue covers on its computers, blue letters in the IBM logo, and dark blue suits worn by IBM salespeople led to the now popular company nickname, “Big Blue.” Today, it has over 380,000 employees in more than 170 countries. Forbes magazine ranks IBM as the fifth most valuable brand in the world. The company is a leading developer of new business technologies, receiving more than 5,000 patents each year. Some of its well-known inventions include the automated teller machine (ATM), the hard disk drive, the magnetic stripe card, relational databases, and the Universal Product Code (UPC). In addition, IBM recently gained attention for its artificial intelligence program called Watson, which challenged two Jeopardy! game show champions and won! According to Virginia Rometty, the current CEO of IBM, “IBM is an innovation company.”

VALUES, MISSION, AND STRATEGY

Recently, IBM initiated a project to facilitate online discussions of key business issues among 50,000 employees to identify common themes and perspectives. According to Sam Palmisano, former CEO of IBM, “We needed to affirm IBM’s reason for being, what sets the company apart, and what should drive our actions as individual IBMers.” The results were three underlying values of IBM’s business practices: (1) dedication to every client’s success, (2) innovation that matters—for our company and for the world, and (3) trust and personal responsibility in all relationships. These values now come to life at IBM in its “policies, procedures, and daily operations,” explains Palmisano.

IBM’s core values also help to define its mission, or its general function in society. In clear, concise, inspirational language, IBM’s mission statement is:

At IBM, we strive to lead in the invention, development and manufacture of the industry’s most advanced information technologies, including computer systems, software, storage systems, and microelectronics.

We translate these advanced technologies into value for our customers through our professional solutions, services, and consulting businesses worldwide.

The mission, and the values it represents, helps define the organizational culture at IBM. Executives, managers, and all employees create the culture through the strategies they select and the detailed plans for accomplishing them.

IBM’s strategies are based on its assessment of fundamental changes in the business environment. First, IBM sees global changes such as fewer trade barriers, the growth of developing economies, and increasing access to the World Wide Web. These changes necessitate a new type of corporation that IBM calls the “globally integrated enterprise.” Second, IBM foresees a new model of computing that includes computational capability in phones, cameras, cars, and other appliances and allows economic, social, and physical systems to be connected. This connectivity creates a “smarter planet.” Finally, IBM predicts a growing demand for technological solutions that help organizations measure and achieve specific outcomes.

As a result, IBM began to shift from commodity-based businesses such as PCs and hard disk drives, to “customizable” businesses such as software and services. The change in IBM was so substantial that it has described its plan in a document called the 2015 Road Map. The Map describes four strategic opportunities: (1) growth markets such as China, India, Brazil, and Africa, (2) business analytics and optimization, (3) cloud and smarter computing, and (4) the connected, “smarter” planet. These opportunities suggest a strategy that delivers value through business and IT innovation to selected industries with an integrated enterprise. The overarching strategy that highlights IBM’s capabilities is called “Building a Smarter Planet.”

BUILDING A SMARTER PLANET

The Smarter Planet initiative is designed for clients who value IBM’s industry and process expertise, systems integration capability, and research capacity. A smarter planet, while global by definition, happens on the industry level. It is driven by forward-thinking organizations that share a common outlook: They see change as an opportunity, and they act on possibilities, not just react to problems.

Source: IBM Corporation

John Kennedy, vice president of marketing, explains, “‘A Smarter Planet’ actually surfaced from observing what was happening in our clients. They were looking to take the vast amount of data that was being generated inside their companies and looking to better understand it.” To IBM “smart” solutions have three characteristics. They are instrumented, they are intelligent, and they are interconnected. Millions of digital devices, now connected through the Internet, produce data that can be turned into knowledge through advanced computational power. IBM believes that this knowledge can help reduce costs, cut waste, improve efficiency, and increase productivity for companies, industries, and cities.

Since introducing the Smarter Planet strategy, IBM has collaborated with more than 600 organizations around the globe. The success of the strategy is evident in the broad range of industries where “smart” solutions are being implemented. They include banking; communications; electronics, automotive and aerospace; energy and utilities; government; health care; insurance; oil and gas; retailing; and transportation. Each industry has reported a variety of applications.

In a study of 439 cities, for example, smart solutions such as ramp metering, signal coordination, and accident management reduced travel delays by more than 700,000 annually, saving each city $15 million. A study by the U.S. Department of Energy found that consumers with smart electric meters cut their power usage and saved 10 percent on their power bills. Retailers who implemented smart systems to analyze buying behavior, merchandise assortment, and demand were able to cut supply chain costs by 30 Page 51percent, reduce inventory levels by 25 percent, and increase sales by 10 percent.

THE BUILDING A SMARTER PLANET MARKETING PLAN

Marketing and communications professionals at IBM have developed the marketing plan for IBM’s Smarter Planet strategy. The general goal is to describe the company’s view of the next era of information technology and its impact on business and society. The execution of the plan includes messaging from IBM leaders, an advertising campaign, an Internet presence, and public relations communications. In addition, IBM measures and tracks the performance of the marketing activities.

The importance of the Smarter Planet strategy was first communicated through a message from the top. Palmisano prepared a “Letter from the Chairman” for the annual report. His message was a powerful statement. Smarter Planet, according to Palmisano, “is not a metaphor. It describes the infusion of intelligence into the way the world actually works.”

IBM also used a print and television advertising campaign to add detail to the general message. The ads focused on the ability to improve the world now, with IBM’s help. “I think what’s different about Smarter Planet,” says Ann Rubin, “is that it was not inward facing, it was looking out at what the world needed. We felt like we could go out there and influence the world for the better.”

IBM recently celebrated its 100th anniversary! Its record of success is testimony to the resilience of a business model that encourages long-term strategies that can say “Welcome to a Smarter Planet.”42

Questions

What is IBM’s Smarter Planet business strategy? How does this strategy relate to IBM’s mission and values?

Conduct a SWOT analysis for IBM’s Smarter Planet initiative. What are the relevant trends to consider for the next three to five years?

How can IBM communicate its strategy to companies, cities, and governments?

What are the benefits of the Smarter Planet initiative to (a) society and (b) IBM?

How should IBM measure the results of the Smarter Planet strategy?

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