

# Introduction to the World of Retailing

## CHAPTER 01



# Questions

- What is retailing?
- What do retailers do?
- Why is retailing important in our society?
- What career and entrepreneurial opportunities does retailing offer?
- What types of decisions do retail managers make?

# What is Retailing?

**Retailing** – a set of business activities that adds value to the products and services sold to consumers for their personal or family use.

A **retailer** is a business that sells products and/or services to consumers for personal or family use.



# Examples of Retailers

- **Retailers:**  
Kohl's, Macy's,  
Wendy's,  
Amazon.com, Jiffy  
Lube, AMC Theaters,  
American Eagle  
Outfitter, Avon, J.Crew



- **Firms that are retailers and wholesalers - sell to other business as well as consumers:**  
Office Depot, The Home Depot, United Airlines, Bank of America, Costco

# Do Retailers Add Value?

## Example

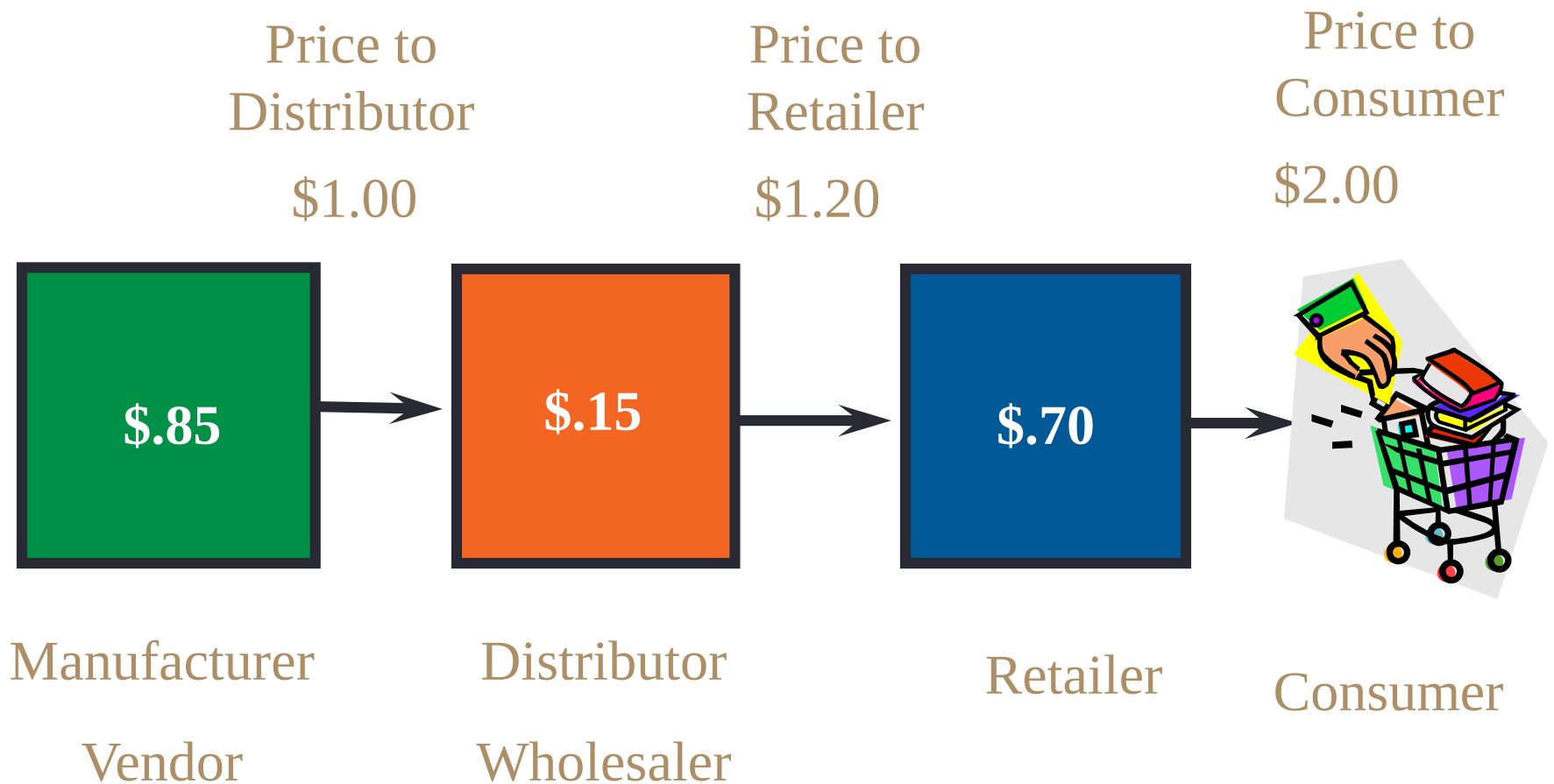
- a box of crackers at a grocery store
- costs \$1 to manufacturer
- sells at a price of \$2

Retailers add significantly to the prices consumers face

Why not buy directly from the manufacturer?

Does that mean that grocery stores are very profitable?

# Why Not Get Rid of the Middlemen?



# How Retailers Add Value

- Provide Assortment
  - Buy other products at the same time
- Break Bulk
  - Buy it in quantities customers want
- Hold Inventory
  - Buy it at a convenient place when you want it
- Offer Services
  - See it before you buy; get credit; layaway



Ryan McVay/Getty Images

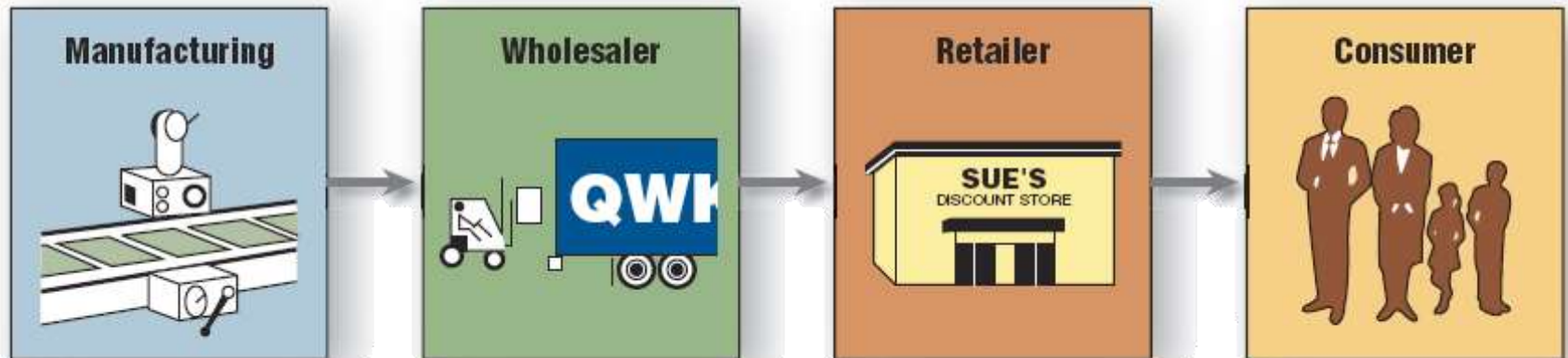
# The Retailer's Role in a Supply Chain

- **Retailers** are the final business within a supply chain which links manufacturers to consumers.
- A **Supply Chain** is a set of firms that make and deliver a given set of goods and services to the ultimate consumer.
- **Wholesalers** buy and store merchandise in large quantities from manufacturers and then resell the merchandise (usually in smaller quantities) to retailers.

# Manufacturing, Wholesaling and Retailing

- **Vertical Integration** – firm performs more than one set of activities in the channel
  - Ex: retailer invests in wholesaling or manufacturing
- **Backward Integration** – retailer performs some distribution and manufacturing activities
  - Ex: JCPenney sells Arizona jeans (Private Label)
- **Forward Integration** – manufacturers undertake retailing activities
  - Ex: Ralph Lauren (New York Jones, Liz Claiborne) operates its own stores
- Large retailers engage in both wholesaling and retailing
  - Ex: Wal-Mart, Lowe's, Safeway, Brown Shoe Company

# Distribution Channel



# Differences in Distribution Channels Around the World

**EXHIBIT 1-4**

Comparison of Retailing and Distribution across the World

|                                                             | <br>United States | <br>Northern Europe | <br>India | <br>China |
|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Concentration (percent of sales made by large retailers)    | Highest                                                                                            | High                                                                                                   | Lowest                                                                                       | Low                                                                                          |
| Retail density (square feet of retail space per person)     | Highest                                                                                            | Modest                                                                                                 | Lowest                                                                                       | Low                                                                                          |
| Average store size                                          | Highest                                                                                            | Modest                                                                                                 | Lowest                                                                                       | Modest                                                                                       |
| Role of wholesalers                                         | Minimal                                                                                            | Modest                                                                                                 | Extensive                                                                                    | Extensive                                                                                    |
| Infrastructure supporting efficient supply chain            | Best                                                                                               | Good                                                                                                   | Weakest                                                                                      | Weak                                                                                         |
| Restrictions on retail locations, store size, and ownership | Minimal                                                                                            | Extensive                                                                                              | Extensive                                                                                    | Modest                                                                                       |

# What have created these differences in distribution systems?

|                                          |                                                                                                                                                                                                                                                              |
|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Social &amp; Political Objectives</b> | <ul style="list-style-type: none"><li>• China, India: To reduce unemployment by protecting small businesses</li><li>• EU: To protect small retailers</li><li>• To preserve green spaces/town centers</li></ul>                                               |
| <b>Geography</b>                         | <ul style="list-style-type: none"><li>• Much lower population density in the US than in India, China, and EU (where less low-cost real estate are available for building large stores)</li></ul>                                                             |
| <b>Market size</b>                       | <ul style="list-style-type: none"><li>• Large retail markets in US, India, China</li><li>• Countries in EU – distribution channels and retail chains operate in a single country (no economy of scales to be achieved; trade barriers still exist)</li></ul> |

# Structure of Retailing and Distribution Channels around the World: The United States

## The United States

- The nature of retailing and distribution channels in the U.S. is unique.
- Has the greatest retail density
- Has the greatest concentration of large retail firms
- Large enough to operate their own warehouses, eliminating the need for wholesaling.
- The combination of large stores and large firms result in a very efficient distribution system.

## CHINA



# Social and Economic Significance of Retailing

- Retail Sales:
  - Over \$4.3 trillion in annual U.S. sales in 2011
  - More than 8% of the U.S GDP comes from retailing
- Employment:
  - Employs over 14 million people in 2011
  - One of the largest sectors for job growth in US
- Social responsibility
- Global player



# Social Responsibility

- Corporate social responsibility
  - The voluntary actions taken by a company to address the ethical, social, and environmental impacts of its business operations, in addition to the concerns of its stakeholders



# Social Responsibility

- Examples:
- Target stores give to local communities as well as through its “Bullseye Gives” program.
- McDonald’s is developing LEED-certified buildings.
- Nike is creating shoes that score high on the sustainability index.
- Home Depot partners with Habitat for Humanity to build houses and donate supplies.



# World's 20 Largest Retailers

EXHIBIT 1-5

The 20 Largest Retailers in the World

| Rank | Name                                | Headquarters Location | Number of Countries | Stores in U.S. | Sales (\$ millions) | Primary Format                  |
|------|-------------------------------------|-----------------------|---------------------|----------------|---------------------|---------------------------------|
| 1    | Walmart                             | U.S.                  | 16                  | Yes            | 418,993             | Supercenter                     |
| 2    | Carrefour                           | France                | 33                  | No             | 119,652             | Supercenter                     |
| 3    | Tesco                               | UK                    | 13                  | Yes            | 92,171              | Supercenter                     |
| 4    | Metro                               | Germany               | 33                  | No             | 86,931              | Warehouse club                  |
| 5    | Kroger                              | U.S.                  | 1                   | Yes            | 82,189              | Supermarket                     |
| 6    | Schwarz<br>Untermatmens<br>Trauhard | Germany               | 26                  | No             | 79,119              | Discount store                  |
| 7    | Costco                              | U.S.                  | 9                   | Yes            | 76,225              | Warehouse club                  |
| 8    | Home Depot                          | U.S.                  | 5                   | Yes            | 67,997              | Home improvement                |
| 9    | Walgreens                           | U.S.                  | 2                   | Yes            | 67,420              | Drug store                      |
| 10   | Aldi Einkauf                        | Germany               | 18                  | Yes            | 67,112              | Discount store                  |
| 11   | Target                              | U.S.                  | 1                   | Yes            | 65,786              | Discount store                  |
| 12   | Rewe                                | Germany               | 13                  | No             | 61,134              | Supermarket                     |
| 13   | CVS                                 | U.S.                  | 2                   | Yes            | 57,345              | Drug store                      |
| 14   | Seven & Holding                     | Japan                 | 18                  | Yes            | 57,055              | Convenience store               |
| 15   | Groupe Auchan                       | France                | 13                  | No             | 55,212              | Supercenter                     |
| 16   | Edeka Zentrale                      | Germany               | 1                   | No             | 54,074              | Supermarket                     |
| 17   | Aeon                                | Japan                 | 8                   | No             | 53,458              | Supercenter                     |
| 18   | Woolworth                           | Australia             | 2                   | No             | 51,171              | Supermarket                     |
| 19   | Best Buy                            | U.S.                  | 15                  | Yes            | 50,272              | Electronics category specialist |
| 20   | Lowe's                              | U.S.                  | 3                   | Yes            | 48,815              | Home improvement                |

Source: "2011 Global 250 Retailers," Stores Magazine, January 2012.

# Opportunities in Retailing: Management Opportunities

- People with a wide range of skills and interests needed because retailers' functions include
  - Finance
  - Purchase
  - Accounting
  - Management information system (MIS)
  - Supply management including warehouse and distribution management
  - Design and new product development

# Opportunities in Retailing: Management Opportunities

- Financially rewarding
  - 5-year salary of buyers: \$50,000 - \$60,000
  - 5-year salary of store managers: \$120,000 - \$160,000

# Opportunities in Retailing: Entrepreneurial Opportunities

- Retailing provides opportunities for people who want to start their own business
- Some of the world's richest people are retailing entrepreneurs
- Examples of retailing entrepreneurs
  - Do Won and Jin Sook Chang (Forever 21)
  - Jeff Bezos ([www.Amazon.com](http://www.Amazon.com))
  - Ingvar Kamprad (IKEA)
  - Howard Schulz (Starbucks)

Wal-Mart: Sam Walton



IKEA: Ingvar Kamprad



# Career Opportunities in Retailing

## Start Your Own Business

- List of Retail Entrepreneurs on Forbes 400 Richest Americans
  - Walton Family (Wal-Mart)
  - Fisher (The Gap)
  - Wexner (The Limited)
  - Menard (Menard's)
  - Marcus (The Home Depot)
  - Kellogg (Kohl's)
  - Schulze (Best Buy)
  - Levine (Family Dollar)
  - Gold (99Cent Only)

# Retail Management Decision Process



# Strategic vs. Tactical Decisions

- Doing the Right Thing (direction) vs..
  - Doing Things Right (execution)
- Strategic Decisions Are:
  - Made Infrequently
  - Long-term
  - Require significant investment
  - Not easily reversed
- Location, Organization Design, Information and Distribution Systems, Customer Service

# Retail Strategy

- Need to identify the competition
  - Intratype competition
    - (e.g., Dillard's vs.. JCPenney)
  - Intertype competition
    - (e.g., Dillard's vs.. Wal-Mart)
- Scrambled merchandising



# Retail Strategy

- Identifying customers
  - What are the significant demographic and life-style trends
  - Who are your target customers



# Retail Strategy

- A retail strategy should identify
  - the target market
  - the product and service mix
  - a long-term comparative advantage



# Whole Foods Implementation

- Strategy - organic and natural foods supermarket chain
- Assortment beyond organic/natural foods
  - Private labels - Whole Food™, 360 Day Value™
  - Love, trust, and employee empowerment
  - Equality in compensation



# Decision Variables for Retailers



# Ethical Situations for a Retail Manager

- Should a retailer sell merchandise that they suspect utilized child labor?
- Should it advertise that its prices are the lowest in an area even though some items are not?
- Should a buyer accept an expensive gift from a vendor?
- Should salespeople use high-pressure sales when they know the product is not the best for the customer's needs?
- Should a retailer give preference to minorities when making a promotion decision?
- Should a retailer treat some customers better than others?

# Checklist for Making Ethical Decisions

1. Would I be embarrassed if a customer found out about this behavior?
2. Would my supervisor disapprove of this behavior?
3. Would most coworkers feel that this behavior is unusual?
4. Am I about to do this because I think I can get away with it?
5. Would I be upset if a company did this to me?
6. Would my family or friends think less of me if I told them about engaging in this activity?
7. Am I concerned about the possible consequences of this behavior?
8. Would I be upset if this behavior or activity was publicized in a newspaper article?
9. Would society be worse off if everyone engaged in this behavior or activity?

# You are Faced with an Ethical Decision: What Can You Do?

- Ignore your personal values and do what your company asks you to do – you will probably feel dissatisfied with your job .
- Take a stand and tell your employer what you think. Work to change the policies.
- Refuse to compromise your principles – you could lose your job!

# Types of Jobs in Retailing

## Appendix 1A

- Most entry level jobs are in store management or buying, but there's...
  - Accounting and finance
  - Real estate
  - Human resource management
  - Supply chain management
  - Advertising
  - Public affairs
  - Information systems
  - Loss prevention
  - Visual merchandising

# Misconceptions About Careers in Retailing

- College not needed
- Low pay
- Long hours
- Boring
- Dead-end job
- No benefits
- Everyone is part-time
- Unstable environment
- No opportunity for women and minorities



The McGraw-Hill Companies, Inc./Andrew Resek, photographer

# Why You Should Consider Retailing

- Entry level management positions:
  - Department manager or assistant buyer/planner
- Manage and have P&L responsibility on your first job
- Starting pay average with great benefits
- Some retailers pay graduate school
- No two days are alike
- Buying and planning for financially analytically oriented
- Management for people-people

# Keywords

- **breaking bulk** A function performed by retailers or wholesalers in which they receive large quantities of merchandise and sell them in smaller quantities.
- **ethics** A system or code of conduct based on universal moral duties and obligations that indicate how one should behave.
- **holding inventory** A major value-providing activity performed by retailers whereby products will be available when consumers want them.
- **intertype competition** Competition between retailers that sell similar merchandise using different formats, such as discount and department stores.
- **intratype competition** Competition between the same type of retailers (e.g., Kroger versus Safeway).
- **wholesaler** A merchant establishment operated by a concern that is primarily engaged in buying, taking title to, usually storing, and physically handling goods in large quantities, and reselling the goods (usually in smaller quantities) to retailers or industrial or business users.

