

Types of Retailers

CHAPTER 02



Questions

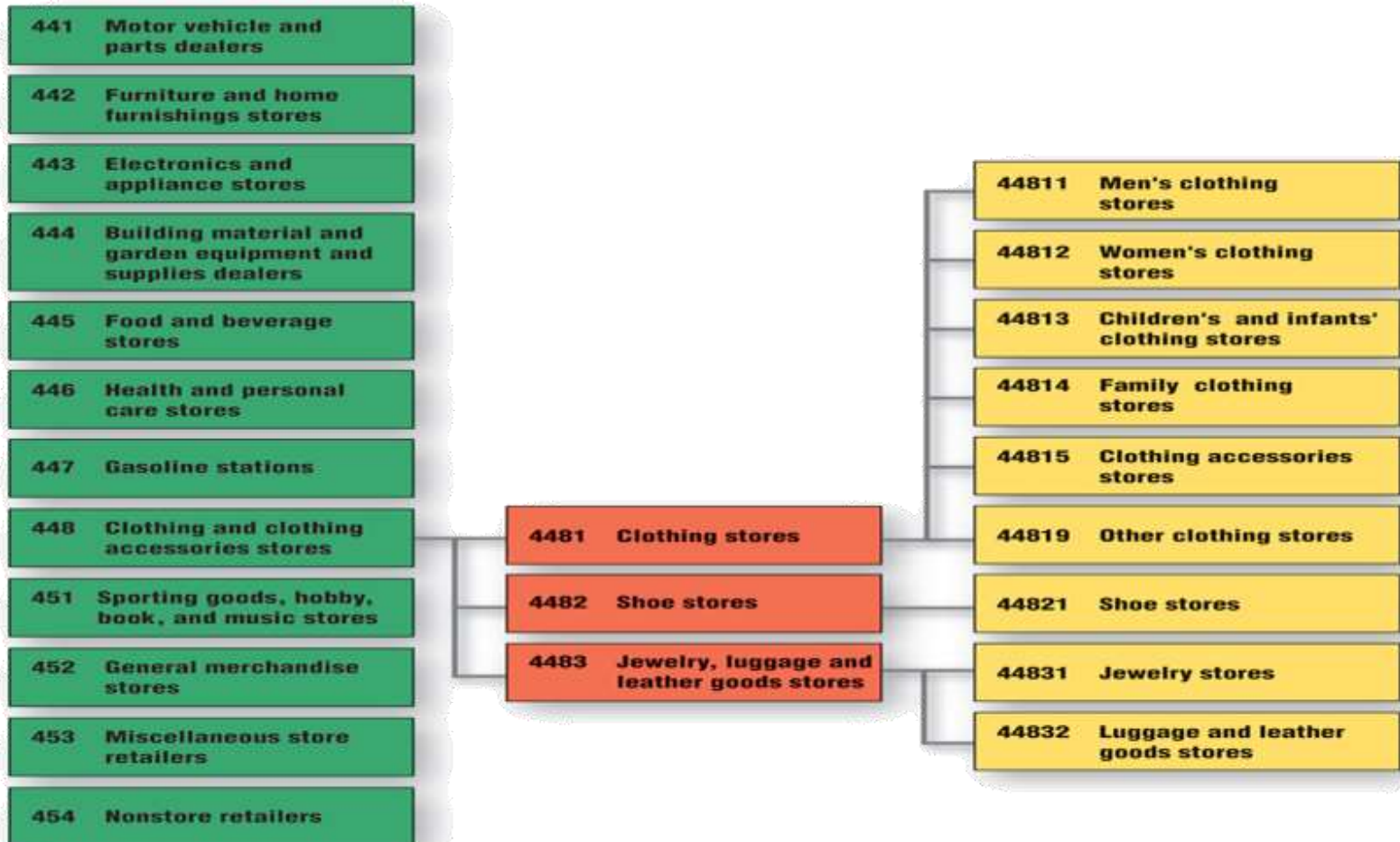
- What trends shape today's retailers?
- What are the different types of retailers?
- How do retailers differ in terms of how they meet the needs of their customers?
- How do service retailers differ from merchandise retailers?
- What are the types of ownership for retail firms?

General Trends in Retailing

- New types of retailers
- Globalization
- Growth in services retailing
- Growth in omnishopping by traditional retailers
- Increase use of technology to reduce cost; Increase value delivered



NAICS Codes for Retailers



Types of Retailers

- Retailers use different retail mixes
 - merchandise:
 - variety (breadth) / assortment (depth)
 - stock keeping unit (SKU)
 - services
 - store design, visual merchandising
 - location
 - pricing
- Infinite variations
- Some combination of retail mixes satisfy the needs of significant segments and persist over time.

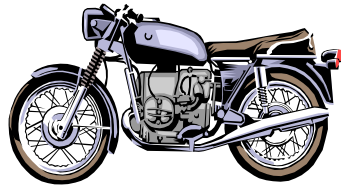
Retailer Characteristics

- Variety (breadth)
- Assortment (depth)
- Services offered
- Prices and the cost of offering breadth and depth of merchandise and services

Merchandise Offering

Variety (breadth of merchandise): wide vs. narrow

- The number of merchandise categories



Assortment (depth of merchandise): deep vs. shallow

-the number of items in a category (SKUs)



Services Offered

- Retailers differ in the services they offer customers
 - Wheelworks offers assistance in selecting the appropriate bicycle as well as bicycle repairs.
 - Wal-Mart, however, doesn't provide any additional services.



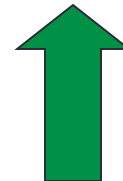
Prices and the cost of offering breadth and depth of merchandise and services

- Stocking a deep and broad assortment (like Wheelworks) is costly for retailers.

Many SKUs

Because the retailer must have backup stock for each SKU in addition to holding the inventory

Inventory Investment Cost



Types of Merchandise Retailers

Food Retailers

Mom and Pop Stores
Convenience Stores
Supermarkets
Supercenters

General Merchandise Retailers

Department Stores
Specialty Stores
Discount Stores
Category Specialists
Off-Price Retailers
Warehouse Clubs
Value Retailers

Sales and growth rate for retail sectors

	Estimated Sales, 2013 (\$ millions)	Estimated Sales Growth 2008–2013 (%)
Food Retailers		
Conventional supermarkets	\$622,896	3.3
Supercenters	354,905	7.1
Warehouse clubs	159,075	6.7
Convenience stores	748,186	3.0
General Merchandise Retailers		
Department stores	73,291	−0.9
Apparel and accessory specialty stores	210,236	4.5
Jewelry stores	36,848	3.4
Shoe stores	29,606	1.8
Furniture stores	66,262	2.2
Home furnishing stores	59,465	2.8
Office supply stores	26,404	2.2
Sporting goods stores	49,717	5.3
Bookstores	19,101	2.1
Building material, hardware, and garden supply stores	393,254	3.6
Consumer electronics and appliance stores	141,800	4.4
Drugstores	250,172	4.2
Full-line discount stores	126,385	0.0
Extreme-value stores	52,454	3.1
Nonstore Retailers		
Nonstore retailing	340,421	9.0
E-commerce	282,055	15.0

Sources: *Economic Forecast: Outlook to 2013 Food, Drug, Mass* (Columbus, OH: Retail Forward, November 2008); *Economic Forecast: Outlook to 2013 Homegoods* (Columbus, OH: Retail Forward, November 2008); *Economic Forecast: Outlook to 2013 Softgoods* (Columbus, OH: Retail Forward, November 2008).

Characteristics of Food Retailers

	Conventional Supermarket	Limited- Assortment Supermarket	Supercenter	Warehouse Club	Convenience Store
Percentage food	70–80	80–90	30–40	60	90
Size (000 sq. ft.)	35–40	7–10	160–200	100–150	3–5
SKUs (000)	30–40	1–1.5	100–150	20	2–3
Variety	Average	Narrow	Broad	Broad	Narrow
Assortment	Average	Shallow	Deep	Shallow	Shallow
Ambience	Pleasant	Minimal	Average	Minimal	Average
Service	Modest	Limited	Limited	Limited	Limited
Prices	Average	Lowest	Low	Low	High
Gross margin (%)	20–22	10–12	15–18	12–15	25–30

Supermarkets

- Conventional supermarkets
 - Perishables (meat, dairy, produce, and baked goods) account for 30% of supermarket sales
- Limited assortment supermarkets (extreme value food retailers)
 - 2000 SKU
 - Offer one or two brands and sizes
 - Designed to maximize efficiency and reduce costs
 - Offer merchandise at 40-60% lower prices than conventional supermarkets



ALDI



ALDI provides quality merchandise at low prices by reducing its assortment in order to control store operating expenses

Trends in Supermarket Retailing

- Competition

- Supercenters
- Warehouse Clubs
- Convenience Stores
- Extreme Price Retailers
- Convenience Stores
- Drug Stores



- Changing Consumption Patterns

Time Pressure

Eating Out More

Meal Solutions

Conventional Supermarket Survival Pack



Chef-crafted meals on the go at EatZi's



- Emphasize Fresh Perishables
 - **Wegmans**
- Target health conscious and ethnic consumers
- Offer more private label brands
- Provide a better in-store experience

Supercenters and Warehouse Clubs

Supercenters ([Hypermarkets](#))

- The fastest growing retail category
- Large stores (185,000 square feet) that combine a supermarket with a [full-line discount store](#)
- One-stop shopping experience

[Warehouse Clubs](#)

- Offer a limited and irregular assortment of food and general merchandise with little service at low prices
- Use low-locations, inexpensive store design, little customer service
- Low inventory holding costs by carrying a limited assortment of fast selling items

Convenience Store

- Tailors assortments to local market
- Makes more convenient to shop
- Offers fresh, healthy food
- Fast, casual restaurants
- Financial services available
- Opening smaller stores closer to consumers (like airports)



Characteristics of General Merchandise Retailers

Type	Variety	Assortment	Service	Prices	Size (000 sq. ft.)	SKUs (000)	Location
Department stores	Broad	Deep to average	Average to high	Average to high	100–200	100	Regional malls
Discount stores	Broad	Average to shallow	Low	Low	60–80	30	Stand alone, power strip centers
Specialty stores	Narrow	Deep	High	High	4–12	5	Regional malls
Category specialists	Narrow	Very deep	Low to high	Low	50–100	20–40	Stand alone, power strip centers
Home improvement centers	Narrow	Very deep	Low to high	Low	80–120	20–40	Stand alone, power strip centers
Drugstores	Narrow	Very deep	Average	Average to high	3–15	10–20	Stand alone, strip centers
Off-price stores	Average	Deep but varying	Low	Low	20–30	50	Outlet malls
Extreme-value retailers	Average	Average and varying	Low	Low	7–15	3–4	Urban, strip

Department Store Retailing

- Broad variety
- Deep assortment
- Customer service
- Merchandise displayed into distinct departments
- Soft goods
- Hard goods



Issues in Department Store Retailing

- Competition
 - Discount stores on price
 - Specialty stores on service, depth of assortment
- Lower cost by reducing service
 - Centralized cash wraps
- More sales
 - Customers wait for sale
- Focus on apparel and soft home
- Develop private labels and exclusive brands



Department Stores: What To Do With an Eroding Market

- Department stores are:
 - Attempting to increase the amount of exclusive merchandise they sell
 - Increase private-label merchandise
 - Expand multichannel and social media presence



Issues in Full-line Discount Store Retailing

- Broad variety, limited services, and low prices
- Only big left
 - Wal-Mart, Target
- Wal-Mart's dominance
- Differentiate strategy
 - Wal-Mart = Low price and good value
 - Target = More Fashionable Apparel
- Competition from category specialists
 - Toys-R-Us, Best Buy, Sports Authority



Category Specialists

- Deep and narrow assortments
- Destination stores
- Category killers
- Low price and service
- Intense competition
- Wholesaling to business customers and retailing to consumers
- Incredible growth



Bass Pro Shops

Issues in Specialty Store Retailing

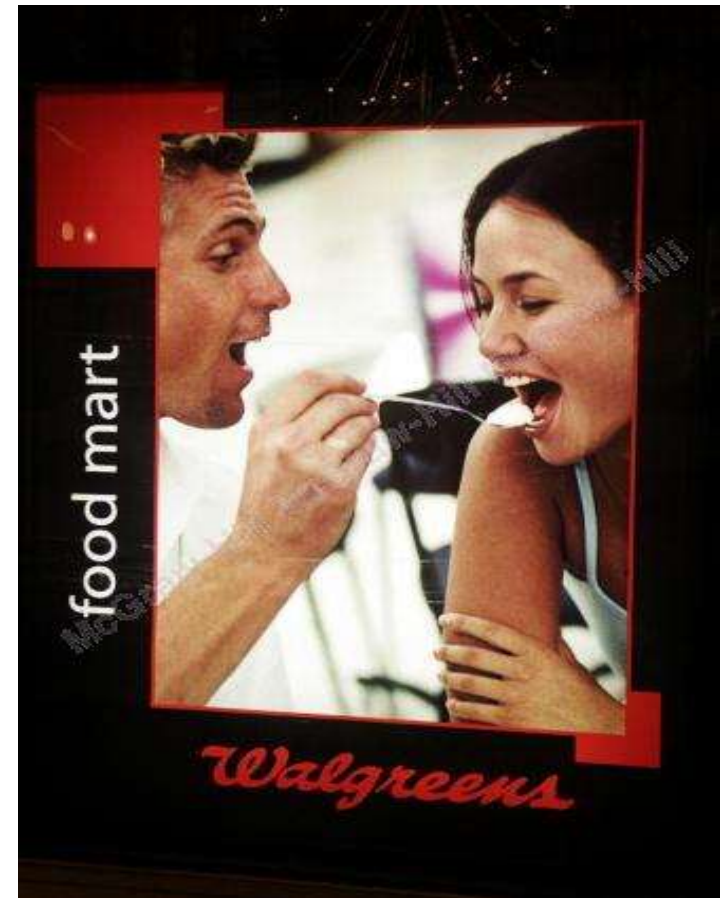
- Concentrate on a limited number of complementary merchandise categories
- Narrow but deep assortments
- Sales associates expertise
- Among the most profitable and fastest growing firms in the world
- Growing interest in resale stores



McGraw-Hill Companies, Inc./Andrew Resek, Photographer

Issues in Drug Store Retailing

- Specialty stores that concentrate on health and beauty care
- Consolidation
 - Walgreens, CVS, Rite-Aid
- Competition
 - supermarkets, discount stores and mail-in orders
- Evolution to a new Format
 - Stand alone sites with drive-thru windows
 - Offering more frequent purchase food items
- Improved systems provide personalized service



Issues in Extreme Value Retailing

- Focuses on lower income consumers
- Names mostly imply good value not \$1 price points
- Low cost location
- Limited services
- More private-label options and impulse buys
- Adding food services
- One of the fastest growing retail segments
 - Dollar Tree
 - Family Dollar
 - Dollar General

Off-Price Retailers

- Close-out retailers
- Offer an inconsistent assortment of brand name merchandise at low prices
- Brand name and designer-label merchandise at 20-60% lower than MSRP
- Offer closeouts and irregulars
- TJX Companies (which operates T.J.Maxx, Marshalls, Winners, HomeGoods, TKMaxx, AJWright, and HomeSense),
- <http://www.Overstock.com> and <http://www.Bluefly.com>

Services Retailing

- Primarily sell services rather than merchandise
- Intangibility
 - Problems in evaluating service quality
 - Performance of service provider
- Simultaneous production and delivery
 - Importance of service provider
- Perishability
 - No inventory, must fill capacity
- Inconsistency of the Offering
 - Importance of HR management

Services Retailing

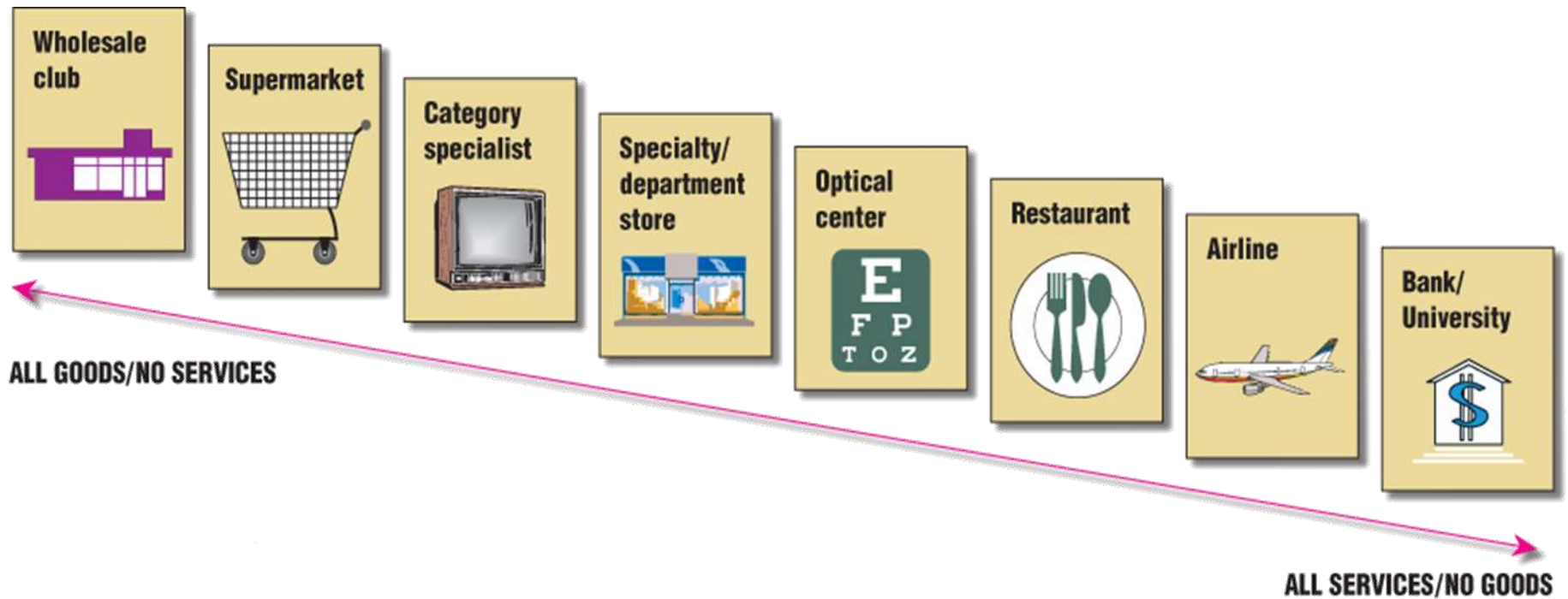
- Aging population will increase demand for health care services
- Young people are spending more time on health and fitness
- Busy parents are using services like home cleaning, lawn services, and meal preparation to balance lifestyles



Examples of Service Retailers

Type of Service	Service Retail Firms
Airlines	American, Delta, British Airways, Singapore Airways
Automobile maint/repair	Jiffy Lube, Midas, AAMCO
Automobile rental	Hertz, Avis, Budget, Alamo
Banks	Citibank, NCNB, Bank of America
Child care centers	Kindercare, Gymboree
Credit cards	American Express, VISA, Mastercard
Education	University of Florida, Babson College
Entertainment parks	Disney, Universal Studios, Six Flags
Express package delivery	Federal Express, UPS, US Postal Service
Financial services	Merrill Lynch, Dean Witter
Fitness	Jazzercise, Bally's, Gold's Gym
Health Care	Humana, HCA
Home maintenance	Chemlawn, MiniMaid, Roto-Rooter

Merchandise/Service Continuum



Types of Retail Ownership

- Independent, Single Store Establishments
 - [Wholesale-sponsored voluntary group](#)
- Corporate Retail Chains
- Franchises



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Retailers Using Franchise Business Model

Food Retailers	InterContinental hotels	Baskin 31 Robbins.
7-Eleven	Jackson Hewitt Tax Service	
Arby's	Jani-King	PEARLE VISION™
Ben & Jerry's	Jazzercise	
Cold Stone Creamery	Jiffy Lube	
Denny's	LA Weight Loss	Curves
Domino's Pizza	Lawn Doctor	
Dunkin' Donuts	Liberty Tax Service	
Johnny Rockets	Mail Boxes	
McDonald's	Midas	RE/MAX
Olive Garden	Payless Car Rental	
Panera Bread	RE/MAX	
Subway	Rent-a-Wreck	
YUM! Brands	UPS Stores	
Services Retailers	Merchandise Retailers	
1-800-GOT-JUNK?	Ace Hardware	
AAMCO	Culligan	
Cash Now	GNC	
Century 21 Real Estate	Matco Tools	
Coldwell Banker	Merle Norman	
Curves	Pearle Vision	
Hampton Inn	Sign-A-Rama	
I-Sold It		

Franchising

- 30 – 40% of US retail sales
- Franchisee pays fixed fee plus % of sales
- Franchisee implements program
- Why is this ownership format efficient?



The McGraw-Hill Companies, Inc./Jill Braaten, photographer

Reasons for Franchising Growth

Technological advances

Profitable utilization of capital resources

Attainment of the “American Dream”

Demographic expansion

Product/service consistency

Reasons for Franchising Failure

Inept management

Fraudulent activities

Market saturation

Franchisor Positions in the Marketing Channel

Manufacturer - retailer

Manufacturer - wholesaler

Wholesaler - retailer

Service sponsor - retailer

Franchisor Benefits

Continuous market

Market information

Money

Royalty fees

Sales of products

Rental and lease fees

License fees

Management fees

Franchising Trends for the New Millennium

Sustained growth

Enduring plus un-imagined applications

International expansion

Increasing tensions

Greater emphasis on financial returns

Keywords

- **assortment** The number of SKUs within a merchandise category. Also called *depth of merchandise*.
- **breadth of merchandise** The number of different merchandise categories within a store or department.
- **category killer** A discount retailer that offers a narrow but deep assortment of merchandise in a category and thus dominates the category from the customers' perspective. Also called a *category specialist*.
- **category specialist** A discount retailer that offers a narrow but deep assortment of merchandise in a category and thus dominates the category from the customers' perspective. Also called a *category killer*.
- **convenience store** A store that provides a limited variety and assortment of merchandise at a convenient location in a 2,000- to 3,000-square-foot store with speedy checkout.
- **conventional supermarket** A self-service food store that offers groceries, meat, and produce with limited sales of nonfood items, such as health and beauty aids and general merchandise.
- **department store** A retailer that carries a wide variety and deep assortment, offers considerable customer services, and is organized into separate departments for displaying merchandise.



Keywords

- **depth of merchandise** The number of SKUs within a merchandise category. Also called *depth of merchandise*.
- **discount store** A general merchandise retailer that offers a wide variety of merchandise, limited service, and low prices.
- **franchising** A contractual agreement between a franchisor and a franchisee that allows the franchisee to operate a retail outlet using a name and format developed and supported by the franchisor.
- **full-line discount store** Retailers that offer a broad variety of merchandise, limited service, and low prices.
- **hypermarket** Large (100,000–300,000 square feet) combination food (60–70 percent) and general merchandise (30–40 percent) retailer.
- **North American Industry Classification System (NAICS)** Classification of retail firms into a hierarchical set of six-digit codes based on the types of products and services they produce and sell.
- **off-price retailer** A retailer that offers an inconsistent assortment of brand-name, fashion-oriented soft goods at low prices.
- **specialty store** A type of store concentrating on a limited number of complementary merchandise categories and providing a high level of service.



Keywords

- **stock-keeping unit (SKU)** The smallest unit available for keeping inventory control. In soft goods merchandise, an SKU usually means a size, color, and style.
- **supercenter** Large store (150,000 to 220,000 square feet) combining a discount store with a supermarket.
- **supermarket** A conventional supermarket is a large, self-service retail food store offering groceries, meat, and produce, as well as some nonfood items, such as health and beauty aids and general merchandise.
- **value retailers** Small, full-line discount stores that offer a limited merchandise assortment at very low prices.
- **variety** The number of different merchandise categories within a store or department.
- **warehouse club** A retailer that offers a limited assortment of food and general merchandise with little service and low prices to ultimate consumers and small businesses.
- **wholesale-sponsored voluntary cooperative group** An organization operated by a wholesaler offering a merchandising program to small, independent retailers on a voluntary basis.

