

Retail Market Strategy

CHAPTER 05



Questions

- What is a retailing strategy?
- How can a retailer build a sustainable competitive advantage?
- What steps do retailers go through to develop a strategy?
- What different strategic growth opportunities can retailers pursue?
- What retailers are best positioned to become global retailers?

More attention to long-term strategic planning than ever before

- Due to the emergence of
 - New competitors
 - New formats
 - New technologies
 - Shifts in customer needs



Elements in Retail Strategy

- Target Market
 - the market segment(s) toward which the retailer plans to focus its resources and retail mix
- Retail Format
 - the nature of the retailer's operations—its retail mix
- Sustainable Competitive Advantage
 - an advantage over the competition that is not easily duplicated and can be maintained over a long time.



Retail Market

- Retail market:
 - A group of consumers with similar needs and a group of retailers that satisfy those needs using a similar retail channel and format.



Criteria For Selecting A Target Market

- Attractiveness -- large, growing,
- Little competition →
- More profits
- Consistent with your competitive advantages



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Can A Retailer Develop a Sustainable Competitive Advantage by:

- Dropping the Price of Your Merchandise?
- Building a Store at the Best Location?
- Deciding to Sell Some Hot Merchandise?
- Increasing Your Level of Advertising?
- Attracting Better Sales Associates by Paying Higher Wages?
- Providing Better Customer Service?



Sources of Competitive Advantage

More Sustainable

- Location
- Customer loyalty
- Customer service
- Exclusive merchandise
- Low-cost supply chain management
- Information systems
- Buying power with vendors
- Committed employees

Less Sustainable

- Better computers
- More employees
- More merchandise
- Greater assortments
- Lower prices
- More advertising
- More promotions
- Cleaner stores

Customer Loyalty

- More than simply liking one retailer over another
- Customers will be reluctant to patronize competitive retailers
- Retailers build loyalty by:
 - Developing a strong brand for the store or store brands
 - Developing clear and precise positioning strategies
 - Creating an emotional attachment with customers through loyalty programs

Retail Branding

Stores use brand (store's name and store brands – private label brands) to build customer loyalty

- Retail brand
 - Can create an emotional tie with customers that build their trust and loyalty
 - Facilitates store loyalty because it stands for a predictable level of quality



Approaches for Building Customer Loyalty

- [Brand Image](#)
- [Positioning](#)
- Unique Merchandise
- Customer Service
- Customer Relationship Management Programs

Example of Positioning



Vendor Relationships

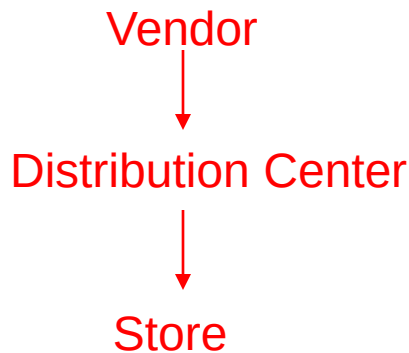
- Low Cost - Efficiency Through Coordination
 - Electronic Data Interchange (EDI)
 - Collaborative Planning and Forecasting to Reduce Inventory and Distribution Costs
- Exclusive Sale of Desirable Brands
- Special Treatment
 - Early Delivery of New Styles
 - Shipment of Scarce Merchandise

Human Resources Management

- “Employees are key to build a sustainable competitive advantage”
- Strategies for Recruiting and Retaining Talented Employees
- Employee Branding
- Develop positive organizational culture

Distribution and Info Systems

Flow of Information



By decreasing costs here, there is more money available to invest in:

- Better services
- Increase in breadth and depth
- Decrease in prices



Location

- What are the three most important things in retailing?
 - “location, location, location”
- Location is a competitive advantage
- A high density of Starbucks stores
 - Creates a top-of-mind awareness
 - makes it very difficult for a competitor to enter a market and find a good locations

Growth Strategies

- Market Penetration
- Market Expansion
- Retail Format Development
- Diversification
 - Related vs. Unrelated



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Growth Opportunities



Market Penetration

- Attract customers from target market – Walgreens “on every corner”
- Get current customer to visit store more often or buy on each visit

Cross Selling – sales associates in one department sell complimentary merchandise from other departments

Example: Manicurist sells services plus hand lotion or nail polish

Example: Salesperson sells leaf blower directs customer to electrical department to purchase a 100 foot extension cord.

Market Expansion

- Market expansion growth opportunity involves using the existing retail format in new market segments
 - Dunkin' Donuts – new stores (and at gas stations) outside northeastern
 - Abercrombie & Fitch (for college students) opens lower-priced chain Hollister Co. for high school students



Retail Format Development

- Develops a new retail format with a different retail mix for the same target market
- Multi-channel retailing
- UK based **TESCO**:
 - **Tesco Express**: small stores located close to where customers live and work
 - **Tesco Metro**: bring convenience to city center location by specializing in ready-to-eat meals
 - **Tesco Superstores**: traditional stores
 - **Tesco Extra**: one-stop destination with the widest range of food and non-food products

Diversification

- Introduces a new retail format toward a market segment that is not currently served by the retailer
- Related diversification
- Unrelated diversification
- Vertical integration into wholesaling or manufacturing

Global Growth Opportunities

- China

- Increasing operating costs
- Lack of managerial talent
- Underdeveloped and inefficient supply chain

- India

- Prefers small family-owned stores
- Restricts foreign investment



Key to Success in Global Retailing

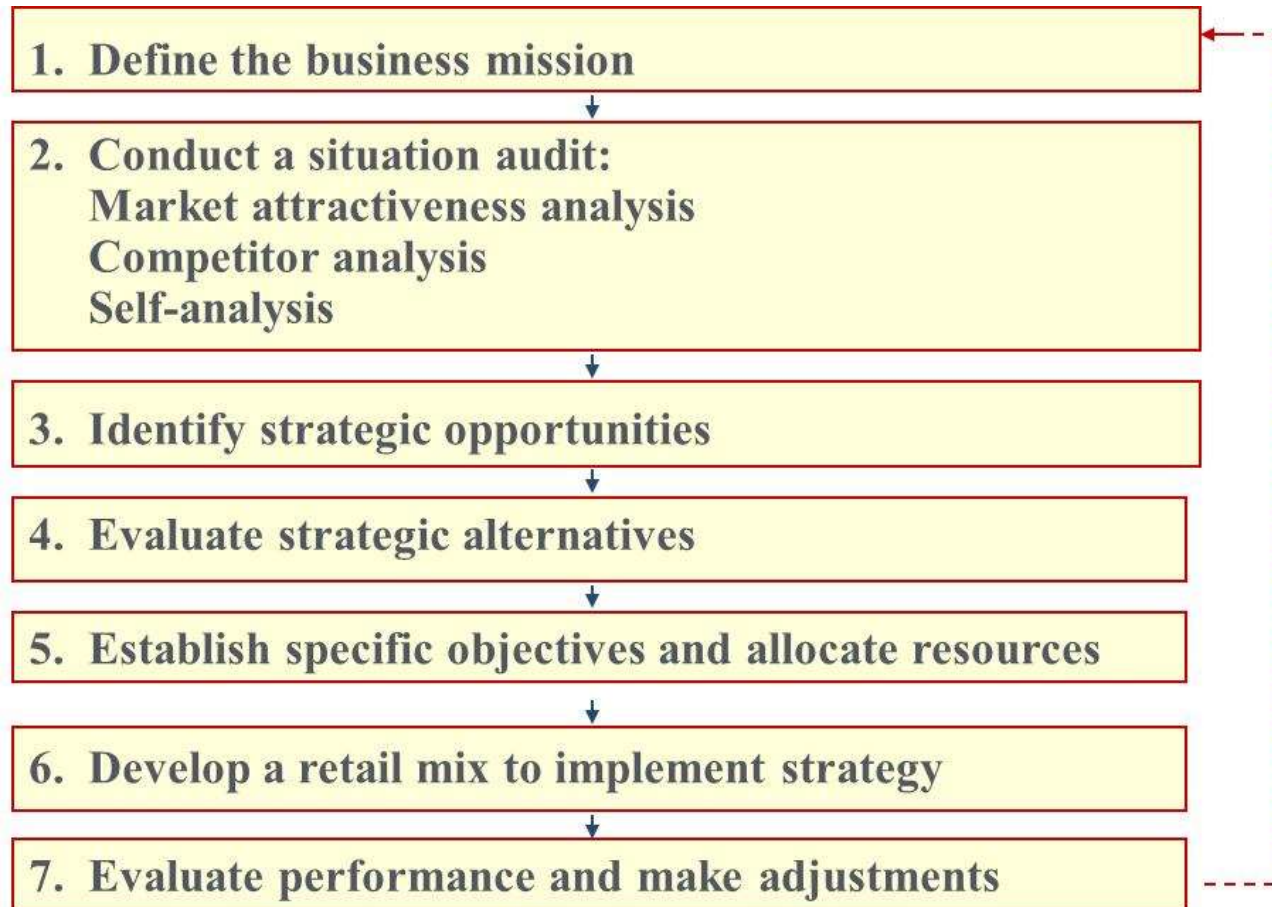
- Globally sustainable competitive advantage
 - Low cost, efficient operations - Wal-Mart, Carrefour
 - Strong private label brands: Starbucks, KFC
 - Fashion Reputation - The Gap, Zara, H&M
 - Category dominance – Best Buy, IKEA, Toys R Us
- Adaptability
- Global Culture
- Financial Resources



International Market Entry Strategies



Stages in the Strategic Retail Planning Process

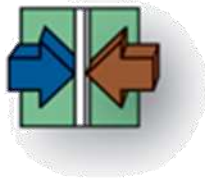


Elements in a Situation Audit



MARKET FACTORS

Size
Growth
Seasonality
Business cycles



COMPETITIVE FACTORS

Barriers to entry
Bargaining power of
vendors
Competitive rivalry



ENVIRONMENTAL FACTORS

Technology
Economic
Regulatory
Social



ANALYSIS OF STRENGTHS AND WEAKNESSES

Management capabilities
Financial resources
Locations
Operations
Merchandise
Store management
Customer loyalty

Market Factors

- **Market size** – large markets attractive to large retail firms
- **Growth** – typically more attractive than mature or declining
- **Seasonality** – can be an issue as resources are necessary during peak season only
- **Business cycles** – retail markets can be affected by economic conditions – military base towns

Competitive Factors

- Barriers to entry
 - Scale economies of big box retailers
 - Service and unique, high-end products of small retailers
- Bargaining power of vendors
 - Markets are less attractive when only a few vendors control the merchandise sold within it

Competitive Factors

- Competitive rivalry
 - Defines the frequency and intensity of reactions to actions undertaken by competitors
 - Conditions leading to intense rivalry: a large number of same size retailers, slow growth, high fixed costs, a lack of perceived differences between competing retailers

Questions for Analyzing the Environment

- New developments or changes -- technologies, regulations, social factors, economic conditions
- Likelihood changes will occur
- Key factors determining change
- Impact of change on retail market firm, competitors

Performing a Self-Analysis

- At what is our company good?
- In which of these areas is our company better than our competitors?
- In which of these areas does our company's unique capabilities provide a sustainable advantage or a basis for developing one?



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Keywords

- **brand image** Set of associations consumers have about a brand that are usually organized around some meaningful themes.
- **positioning** The design and implementation of a retail mix to create in the customer's mind an image of the retailer relative to its competitors. Also called *brand building*.

