
Strategic Retail Management

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Text and International Cases

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Preface

The economic importance of retailing is constantly increasing, as can be seen from the development of many countries across Europe, America and Asia. In highly developed countries, retailers are taking an increased leadership role in every distribution channel. Expansion strategies, retail branding strategies, innovative solutions for supply chain management and many other developments all reflect this trend. Transformation countries such as those in Central and Eastern Europe and emerging countries such as China or Brazil are also seeing fundamental changes in retailing structures, which may lead to comparable developments.

Internationalisation has also led to profound changes. Formerly local or national retailers are increasingly developing into global players with worldwide operations.

Book Concept and Overview

This book is devoted to the dynamic development of retailing. The core focus is on various strategy concepts adopted by retailing companies and their implementation in practice. This is not a traditional textbook or collection of case studies; it aims to demonstrate the complex and manifold questions of retail management in the form of twenty lessons, where each lesson provides a thematic overview of key issues and illustrates them via a comprehensive case study. The examples are all internationally known retail companies, to facilitate an understanding of what is involved in strategic retail management and illustrate best practices.

The book is divided into four main parts. Part I (Chapters 1–6) introduces „Functions, Formats and Players in Retailing“. Part II (Chapters 7–10) deals with growth, internationalisation, retail branding and sustainability strategies as fundamental aspects of „Strategic Marketing in Retailing“. Part III (Chapters 11–16) focuses on the „Marketing Mix in Retailing“, discussing store location, merchandise and category management, pricing, marketing communication, instore marketing and customer relationship management. Finally, Part IV (Chapters 17–20), „Buying, Logistics and Performance Measurement“, deals with retail purchasing strategies and concepts, the modern concepts of physical distribution and IT-based supply chain management and methods of performance monitoring and controlling.

Teaching and Learning

The book is targeted primarily at students in their third and fourth academic years (undergraduate and graduate level) in the fields of Business Administration/Marketing/Management at institutions such as universities, academies and business schools. Practitioners in the consumer goods industry and retailing companies who want to acquire concise and practice-oriented information on current retail topics will also benefit.

The book can also be used in education as a basis for working with case studies. The case studies are integrated in such a way that they provide additional content and specific applications of the individual lessons. Thus, they form part of the main topic, but also lead to suggested discussion subjects and questions in order to deepen the understanding of the topic. Instructors are provided with additional resources. For each case study, draft solutions are provided via the publisher's webpage (www.gabler.de).

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Introduction

Retailing is one of the world's largest industries. It is in a permanent state of change, and the pace of this change has been accelerating over the past decade. From a marketing perspective, retailers are closer to consumers than manufacturers. Retailers are the final stage in the marketing chain and the contact point between consumers and manufactured products. Where retailing previously prioritised buying decisions and product assortment, it now follows a more strategic approach to management and marketing and is seizing the opportunity to be consumer-oriented, engage in personal contact with customers, gather information on consumer behaviour and exploit insights into consumer behaviour and preferences. What was once a simple way to do business has been transformed into a highly sophisticated form of management and marketing.

Retailing involves those companies that are engaged primarily in the activity of purchasing products from other organisations with the intent to resell those goods to private households, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise.

A number of developments are responsible for the dynamic change in modern retail management. In most developed countries, retailing has experienced a dramatic increase in the scale of operations and market concentration. **Large-scale retail chains** have appeared and taken market share from independently owned small shops. These retail chains first developed into regional groups and then into nationally and even internationally active retail operations. In the past decade, mergers and acquisitions between already large players have accelerated this development. Many retailers now have massive turnovers, very large numbers of employees and extensive store networks. The world's largest retailer, *Walmart*, achieves an annual turnover of more than 485 billion EUR, higher than the GDP of many countries, and employs about 2.2 million people. *Carrefour*, the world's third largest retailer and the second largest in Europe, operates more than 10,000 stores worldwide.

At the same time, many retailers have developed into international multichannel retailers, that is, they operate in many countries and offer their customers' different retail formats. For example, the French retailer *Carrefour* is now a multi-format group that uses hypermarkets, supermarkets, convenience stores, hard discounters and other formats to sell its assortment to customers in over 30 countries. More than half of its turnover is earned outside its home market. The German *Metro Group* employs food superstores (*Real*), con-

sumer electronics category killers (*Media Markt* and *Saturn*), cash and carry wholesale stores (*Metro C&C*) and other formats and earns about sixty percent of its turnover in markets outside Germany. *Tesco* has expanded rapidly into Eastern European and Asian markets and, in addition to several store-based formats, operates a successful e-commerce channel, *Tesco.com*. While the rise of e-commerce in retailing was initially overestimated during the first dotcom boom, it has nonetheless developed slowly but surely and *Tesco* now achieves sales of almost 3.5 billion EUR through its online channel.

In most country markets, retailing is a highly concentrated industry. According to the market research company *Planet Retail*, the top five food retailers account for more than 70% of the market in the UK, Germany and France. Consequently, one of the most influential developments has been a **shift in power** within the distribution channel over recent decades. The power of individual retail organisations is growing; they are now comparable to and in many cases even larger than many manufacturers, even global brand manufacturers such as *Procter & Gamble*, *Sony* or *Nestlé*. Thus, today's manufacturers often depend on a few large retailers for a substantial share of their global turnover. Along with this increasing size, retail marketing budgets, IT budgets and budgets for top managers have also increased. The increased sophistication of retail management, combined with the better availability of customer data, has also contributed to the power shift. Retailing is currently one of the leading industries when it comes to adopting new technologies. Retailer **POS data** has become more valuable, because IT systems have facilitated data collection at checkout. In addition, as retailers have grown from regional to national chains they have been able to accumulate knowledge about consumer trends and changes in product sales, etc., which has enhanced their relevance as gatekeepers for products *en route* to the customer. Customer-specific data, now increasingly gathered via **loyalty cards**, adds to this knowledge.

Where manufacturer brands once used to be all-important, the past few years have seen the power of **retail brands** challenging suppliers' positions. Retailers have started to embrace the concept of **strategic marketing**; they use strategic planning and position themselves relative to their competitors. Thus, retailers' enormous buying volumes are just one source of their power base – albeit certainly the most important.

Retailers are **intermediaries** in the distribution channel. However, while retailing has long been considered a somewhat passive link in the value chain between manufacturer and consumer, retailers now use their positions to become the **dominant player in the distribution channel**. They develop their own marketing concepts and assume **marketing leadership** in their vertical relationships with manufacturers. Retailers have also developed their own logistics concepts and created central warehouses. Accordingly, where manufacturers traditionally fulfilled large parts of the logistics function, retailers today also strive towards **logistics leadership** in the distribution channel.

Our aim with this book is to cover the most important aspects of retail management with a comprehensive approach that is simultaneously concise and innovative. We discuss twenty different retail management topics by first giving a thematic overview that covers the key issues and explains the most important concepts before illustrating them via

extended case studies. The case studies use internationally known companies that can be considered best practice cases for the various strategies discussed.

Part I introduces retailers' functions (Chapter 1) before discussing retail formats and players. A **retail format** is a specific configuration of the retail marketing mix (e. g., store size, typical location, merchandise, price and service offered) and often forms the core of a retail strategy. Different formats are described for food and general merchandise retailing and we discuss which are currently gaining market share and which are declining. For example, category killers such as *IKEA*, *Media Markt* and *Leroy Merlin* have seen tremendous growth over the past few decades. And hard discounters, such as *Aldi*, are some of the most aggressively growing retail formats in food retailing worldwide (Chapters 2 and 3). **E-commerce** has grown into a substantial business in general merchandise retailing. Many pure Internet players, such as *Amazon*, *Ebay* or *Zalando*, have reached considerable size (Chapter 4). At the same time, more and more stationary retailers are embracing online shopping, offering it as part of a **cross-channel** approach (Chapter 5). At the same time, new players are competing with existing retailers. The most important trend here is the emergence of manufacturers as competitors. Manufacturers increasingly operate in vertical marketing systems, trying to control distribution of their products through contractual or even equity-based vertical strategies. In addition, vertically integrated players that are simultaneously retailers and manufacturers, such as *IKEA*, *Zara* or *H&M*, have captured major market shares in many retail sectors (Chapter 6).

Part II discusses the most important aspects of strategic retail marketing. Dynamic growth is one of the most important developments in retailing in recent decades and has provided the foundation for many subsequent changes. This growth is achieved through various **growth strategies**, such as outlet multiplication, acquisitions and franchising (Chapter 7). In addition, since many industrial countries are characterised by stagnating retail markets, this growth is increasingly achieved by entering foreign markets. **Internationalisation** is a complex process, since local environments in host countries often differ considerably from the home market (Chapter 8). Growth, whether nationally or internationally, can only be achieved via a sustainable competitive advantage, and retailers are now increasingly trying to develop a clear **positioning** for their companies relative to their competitors. One important component of this marketing strategy is creating a strong **retail brand**, with clear and distinct associations in the consumer's mind that promote customer loyalty (Chapter 9). In implementing their business strategies, however, retailers have to guarantee corporate social responsibility (Chapter 10) and therefore most engage in activities such as ethical sourcing, corporate philanthropy, cause-related marketing or socially responsible employment. While corporate social responsibility initiatives often have legal, regulatory or ethical motives, customers are increasingly evaluating retailers' behaviour.

Retailers have more options for strategic retail marketing in their **marketing mix** than manufacturers, because they are in direct contact with the final consumers, who visit their stores and interact directly with them. Part III examines this marketing mix and takes an in-depth look at a number of retail marketing mix instruments. **Store location** is a dominant determinant of retailing success, because it is a key factor in attracting customers to

outlets and cannot be changed in the short-term (Chapter 11). Within their stores, retailers offer their customers a **merchandise** assortment, and one of retailers' primary functions is to select an appropriate breadth and depth for their assortment and specific products (e. g., manufacturer brands or **store brands**) and to tailor their offer to target customers. One new concept is **category management**, which aims to implement a more strategic and holistic approach to merchandising (Chapter 12). Closely related to the assortment is the **pricing policy**. Since consumers spend a large share of their incomes on retailing, pricing is extremely relevant to decisions over which retailer to patronise and retailers have many strategic and tactical options here to influence purchasing behaviour (Chapter 13). **Marketing communication** is another important element of the retail marketing mix, involving all instruments and activities to communicate with the customer (Chapter 14). Retailers have long applied traditional communication strategies, mainly above-the-line communication heavily focused on price promotions. But today below-the-line communication plays an important role, with special events, sponsoring and especially interactive media such as social media.

Many buying decisions are made at the point-of-sale, so professional **instore marketing** can increase sales substantially. Store layout and design can support customer orientation within stores and create a positive store atmosphere (Chapter 15). **Customer relationship management** (CRM), which primarily focuses on establishing enduring relationships with customers, is a relatively new part of the retail marketing mix. One key manifestation of CRM in retailing is loyalty programmes. The loyalty cards most consumers carry are gateways to very different approaches and methods of collecting data and tailoring marketing to individual customers (Chapter 16).

While Parts I – III focus on aspects of retailing that are at least partly visible to the customer, Part IV deals with the **back-end and internal processes** needed to offer products to consumers. Retailers need to buy the merchandise they offer, relying on various supply sources to do so, from global manufacturers of branded goods to external buying organisations in foreign markets and store brand manufacturers. Relationships with suppliers and new concepts such as **efficient consumer response** have emerged, but these **buying strategies** must be closely adapted to the specific supply situation (Chapter 17). Products must be transported along the supply chain – from the factory to the store shelf. **Physical logistics** is increasingly a core competency for retailers, who need to establish the necessary infrastructure and coordinate **product flows** within the **supply chain** (Chapter 18). These product flows depend in turn on **information flows**. A product sale should trigger a warehouse order, which in turn triggers a supplier order. The exact process depends on knowing what products are in stock at the various stages of the supply chain and forecasting consumer demand, etc. To enhance supply chain efficiency, different **collaborative techniques** for efficient stock replenishment have been developed, based on new enabling technologies (Chapter 19). Finally, intense competition in retailing, combined with the price pressure to which most retailers are exposed, makes it necessary to both perform well and constantly improve the effectiveness and efficiency of strategies and processes. Adequate **monitoring** of financial and operational performance is crucial, and retailers have devel-

oped sophisticated systems for evaluating the profitability of their store networks, supply chain efficiency and financial performance. New techniques like value-based management have been quickly embraced by retailers (Chapter 20).

This short overview of the different fields of strategic management in retailing shows that the world of retailing has become complex and challenging. The following twenty chapters cover the most important topics and provide an insight into the main developments and concepts. The case studies provide an understanding of how these concepts are implemented by successful retail companies around the world.

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