CHAPTER 5
RETAIL MARKET STRATEGY

CONVERSION NOTES

Berman & Evans, 10th edition	Chapters 2, 3, & 20

CASES AND ANCILLARY CASES

CASE 1: Tractor Supply Company: Targeting the Hobby Farmer

Synopsis: The Tractor Supply Company case introduces students to a unique retailing story. By recognizing a target market with unique needs, TSC repositioned its traditional tractor-parts business into a specialty retailer serving a variety of needs for consumers entertaining their interests in part-time farming and ranching. This growing consumer segment has been TSC's focus for the past 15 years as it developed a merchandise variety and assortment well beyond its early focus on tractor parts. This case provides a comprehensive illustration of TSC's retail mix. It describes TSC's growth strategies with a specific emphasis on the firm's current merchandise variety, target market relationships and technology practices.

CASE 8: Retailing in India: The Impact of Hypermarkets

Synopsis: **Video Segment 2, Retail Revolution in India, complements this case.** The Retailing in India case describes the efforts of retailers like Wal-Mart, Tesco and Carrefour to explore opportunities to move into retailing in India through development of hypermarkets. The case describes economic growth and developments in the Indian retail marketplace, as well as changes in the behaviors of Indian consumers that have combined to create a very attractive potential opportunity for global retailers. The case describes both the opportunities presented for development of the hypermarket format, as well as the competitive challenges which these hypermarkets will likely create in the traditional retail markets in India.

CASE 9: Diamonds: From Mine to Market

Synopsis: **Video Segment 12, How to Buy Diamonds, complements this case.** The case provides a detailed discussion of sourcing, retailing and purchasing diamonds. With a focus on conflict-free diamonds, the case provides students with a number of questions to consider in evaluating the merchandise and policy offerings of various jewelry retailers.

CASE 10: Save-a-Lot

Synopsis: Save-a-Lot is an exemplar of the retail category known as an extreme value food retailer. The case describes the target market, location, merchandising, buying and operations strategies of extreme value food retailers and also identifies some trends. The Save-a-Lot case illustrates the increasingly popular extreme value food retailer category.

CASE 11: Royal Ahold: The Biggest Supermarket Retailer You Have Never Heard Of

Synopsis: Ahold is a large global supermarket chain headquartered in the Netherlands. It is the second largest food retailer in the world with sales of over $60 billion in 2002, but its name does not appear on any of the several supermarket chains it owns and operates in countries around the world. The case describes Ahold's global and U.S. strategies and competitive strengths vis-à-vis other large food retailers such as Wal-Mart and Carrefour. The case provides a good opportunity to explore location as a sustainable competitive advantage.

CASE 12: The Competitive Environment in the 18- to 22-Year Old Apparel Market

Synopsis: American Eagle and Abercrombie & Fitch are rival retailers vying for a competitive leadership position among the same segment of the teenage/college student market. Each, however, pursues a slightly different strategy, even though some similarities have raised legal questions. The case details the strategies, merchandising, operations, and competitive positions of the two retailers. The case challenges students to determine relative competitive strengths between these two retailers.

CASE 13: Tiffany's and Blue Nile: Comparing Financial Performance

Synopsis: **Video Segment 12, How to Buy Diamonds, complements this case.** The case provides a detailed comparison of two popular jewelry retailers with very different retail market strategies and operating formats: Tiffany and Blue Nile. Founded in New York City in 1837, Tiffany & Co. offers fine jewelry, watches, silverware, china, stationery and other luxury items, along with excellent customer service in more than 165 stores. In contrast to Tiffany's longstanding history in retailing, Blue Nile, the largest online retailer of certified diamonds and fine jewelry, is barely 10 years old. Blue Nile's primary value proposition is based on offering a simple way for men to select diamond engagement rings. The case provides students with detailed information to compare the retailers' market strategies, target markets, and sources of competitive advantage.

CASE 16: Home Depot Changes Directions

Synopsis: Home Depot is the largest home improvement specialty retailer in the world and the second largest retailer in the United States. The case documents recent changes at the Home Depot after the installation of a new CEO. The case highlights Home Depot's growth plans, competitive considerations and shifts in corporate culture. Students are asked to evaluate the strategies of Home Depot relative to Lowe's.

CASE 17: Avon Embraces Diversity

Synopsis: Avon, the largest cosmetics firm in the United States, sells primarily through the direct selling method using about 3.5 million sales representatives in about 143 countries around the world. The case describes Avon's turnaround strategy since the 1970s when it started actively promoting diversity, by including more women and minorities in the top and middle management levels. Avon's recent strategic direction illustrates the competitive advantages that may be gained both from a strong brand name and an effective distribution network.

CASE 25: Macy's: A National Department Store Brand

Synopsis: The case chronicles Federated Department Stores' acquisition of the May Company, along with nearly a dozen other well-known regional department store chains. The focus of the case is on Federated's decision to re-brand its organization, pulling all regions and divisions, except for its upscale Bloomingdale's stores, under the Macy's brand name. The key consideration in the decision was to provide a better footing for competition with national chains like Target and Kohl's. The case describes the re-branding campaign as well as reactions to the change from both consumers and retail analysts. Case questions ask students to analyze Macy's decisions in the re-branding process, along with Macy's market strategies.

CASE 27: Enterprise Builds on People

Synopsis: Enterprise is the largest and the most profitable U.S. car rental business. Enterprise's primary target customer segment is the in-town renter. Its human resource strategy is key to its success. The case describes the human resources strategy at Enterprise. This case illustrates human resource strategies used to foster competitive advantage.

CASE 30: Sephora

Synopsis: Sephora is a beauty products retailer, headquartered in France and operating retail stores in multiple countries in Europe and the United States. It has expanded rapidly in the United States since the first store opening in mid-1998. The case describes the phenomenal success of Sephora retail stores, its philosophy and strategy as well as the success of its Internet retail site. This case provides the opportunity to critically evaluate Sephora's global expansion strategy and to determine where that strategy went wrong.

CASE 35: Starbucks

Synopsis:

Video Segment 5, Starbucks, complements this case. Starbucks is the leading retailer of specialty coffee beverages and beans and related food and merchandise. Its annual sales for 2005 were $5.3 billion, with a profit of $392 million. Starbucks owns and operates more than 5,200 retail stores and licenses an additional 2,800 airport and shopping center stores in 30 countries. In addition to its direct retailing activities, Starbucks formed strategic alliances with Dreyer's Grand Ice Cream, Kraft Foods, Barnes & Noble Booksellers, Jim Beam, United Airlines and PepsiCo to expand its product and distribution portfolios. Howard Schultz, chairman and CEO, and his senior management team were focusing on how to sustain their phenomenal growth and maintain their market leadership position. This comprehensive case and supplemental Video Segment provide a review of Starbuck's retail strategies.

CASE 37: PetSmart: Where Pets are Family

Synopsis: **Video Segment 38, Pet Economy: Pampering Your Pets, complements this case.** The case provides an overview of the pet industry, the second fastest growing U.S. retail category, with expenditures of more than $38 billion and continued projections for growth. The case describes the transformation of the pet industry into a highly differentiated market with diverse and creative offerings. The case goes on to describe the retail market strategy of one key player in the industry, PetSmart. PetSmart's strategies to capitalize on this high growth market, including merchandise and store decisions, service offerings, and human resource practices are all described.

Ancillary Case A1: The Gap and Old Navy

Synopsis: The Gap is a multinational apparel manufacturing and retailing conglomerate. In an effort to expand and diversify its appeal, the company has in recent years opened up Old Navy, and Banana Republic. All of the company's stores have customers of their own, but they all compete with one another to some extent. This case provides an opportunity to compare the target market and merchandise strategies of The GAP, Old Navy, and Banana Republic. Further, it offers a look at the use of private brands as a strategy for competitive advantage.

Ancillary Case A3: Cleveland Clinic

Synopsis: The Cleveland Clinic is a well-respected health care provider facing a changing competitive environment. In response to this changing environment, the Cleveland Clinic is opening facilities in South Florida. The Cleveland Clinic case discusses the impact of the environment on an organization's retail strategy. It specifically focuses on the growth opportunities for a service retailer facing a mature market in its geographic segment.

Ancillary Case A4: Niketown

Synopsis: Nike, the manufacturer of the leading brand of athletic shoes, has opened retail outlets to showcase their products. These outlets have a unique and highly entertaining store environment. The Niketown case illustrates the use of brand name in creating strategic advantage.

Ancillary Case A5: Simon and Smith

Synopsis: Two partners in a medium-sized women's specialty store look at potential changes in customer base and discuss opportunities to attract younger customers. This case illustrates many of the challenges that retailers face in matching retail strategy to the changing needs of its target market.

Ancillary Case A6: Mustafa Center: Singapore's All-in-One Retailer

Synopsis: Mustafa Center is a well-known retailer in Singapore that provides one-stop shopping. The store combines a department store, grocery store, pharmacy, hotel, and services retailing including currency exchange and travel agency. This case illustrates the strategic choices made to cultivate competitive advantage for Mustafa Center.

Ancillary Case A7: Marquette Army/Navy Surplus Store

Synopsis: Army/Navy surplus store is considering various new strategic directions. The store was originally a typical military surplus store with a large assortment of military clothing. Items included used uniforms, canteens, and helmets as well as new merchandise. As the store grew, it added a department carrying trendy clothing for female teenagers. The store is facing several problems with its current retail strategy including promotions and pricing. This case should generate discussion based on retail strategy evaluation and implementation.

Ancillary Case A8: Monarch Department Stores

Synopsis: Monarch Department Stores is experiencing the prospect of a declining rate of sales growth. The company president sets up a top management committee to evaluate the possibility of increasing the growth rate through becoming more involved in nonstore retailing. The team has made its report. The president must now choose from among the nonstore alternatives proposed by the management committee. This case illustrates strategic choices facing a department store as it attempts to foster competitive advantage in a declining market. (Note: Monarch stores is a fictitious company. The development of the case was guided by the author's administrative experience in department store retailing.)

Ancillary Case A11: Toys "R" Us

Synopsis: Describes changes made by Toys "R' Us to its retail market strategy and explores issues of adaptation to changing consumer needs. The case provides specific impetus to discuss alternative growth strategies.

Ancillary Case A12: Sinbad's Men and Boy's Store

Synopsis: The case helps to illustrate marketing philosophy, positioning decision, and geographic location. The case also supports that a low cost strategy is not always the most profitable avenue on a long-term basis. This case illustrates the challenges faced by a retailer in determining the most beneficial sources for gaining competitive advantage.

Ancillary Case A13: Retailing in China

Synopsis: The case is based on the experiences of the authors, who spent several weeks in the Shanghai Suzhou area of China in summer, 1995. During this time, they met with the managers of several department stores in the area. The First Department Store is an actual store in Suzhou, but the name has been changed. Suzhou is considered to be a secondary market in China, meaning that the local authorities and individual entrepreneurs determine business conditions. In contrast, a city such as Shanghai is considered to be first tier economic area, and receives extensive support from the central government to develop its economy and stimulate business. The case examines the development and implementation of a retail strategy from a global perspective.

Ancillary Case A33 – Wolf Camera

Synopsis: Wolf Camera was founded in 1974. It is now one of the two largest specialty photo retailers in the country. Its growth has been the result of a steadfast commitment to customer satisfaction – providing the best selection of photo and video products and accessories, followed by the best service at the lowest possible prices. The case illustrates the concept of retail strategy, the steps a retailer goes through to develop its strategy, and how a retailer may use its strategy to build a sustainable competitive advantage.

VIDEO SEGMENTS

Video Segment 1: The History of Wal-Mart

Teaching Use: Chapter 5 Illustration of Retail Strategy

Summary:

This video follows the remarkable growth of Wal-Mart, from the grand opening of Walton's 5 & 10 in the early 1950s to today. Wal-Mart is the largest retail merchant in the world. This segment discusses the history of the firm up to the present. Sam Walton started his retailing career by opening a Ben Franklin franchised variety store in a small town in Arkansas. Then he attempted to convince Ben Franklin to allow him to sell his merchandise at lower prices so he could open discount stores in small rural communities. When Ben Franklin decided not to support his concept, Walton proceeded on his own to open his first discount store in 1960 in Rodgers, Arkansas. This store, store #1, is still open.

The video then traces the evolution of Wal-Mart – national expansion of general merchandise discount stores, the launching of Sam's Club warehouse clubs, and international expansion. The video stresses the importance Wal-Mart places on people, both customers and employees.

Video Segment 2: Retail Revolution in India

Teaching Use: Chapter 5 Retail Market Strategy

This video can be used alone or in conjunction with Case 8: "Retailing in India: The Impact of Hypermarkets," located in Section V of the textbook.

Summary:
The economy in India is growing by 8% a year, its stock market rose by nearly 40% in 2005 and foreign investors are flooding in. It is estimated that 70 million Indians in a population of about 1 billion now earn a salary of $18,000 a year, a figure that is set to rise to 140 million by 2011. Many of these people are looking for more choices in where to spend their new-found wealth.

Indian retail is heavily underdeveloped and over 95% of the market is made up of small, family-run stores. There are signs that the Indian government is dropping its traditionally protectionist stance toward these nine million small grocery shops and opening up its retail market to greater overseas investment. This policy change means that, chains like McDonalds, Marks & Spencer, Body Shop and Ikea can, if they want to, open and control their own operations in India.

The Indian government has been conducting an impact analysis of how the introduction of supermarket chains like Tesco and Carrefour would affect its retail sector. The government is trying to find a model that doesn't displace existing retailers. Politicians still feel they have a duty to protect the small shopkeepers they represent. Leaders realize that foreign investment is badly needed to provide the infrastructure to upgrade India's retail industry. An estimated 50% of the country's fruit and vegetables rot by the roadside before they reach market.

Source: Poston, Toby. Countdown to India's retail revolution. *BBC News - Online*, February 8, 2006, http://news.bbc.co.uk/2/hi/business/4662642.stm.

Video Segment 3: Staples' Retail Mix

Teaching Use: Chapter 5 Retail Market Strategy

Summary:
Staples is a category specialist in for office supply merchandise. Its retail mix I includes merchandise (80% national brands and 20% of its own brand); locations (high traffic areas) and store design (popular products in the front of the store to make it easy to shop for products). It offers its customers the opportunity to shop for merchandise through multiple channels – store, Internet, and catalogs.

Video Segment 5: Rainforest Café: A Themed Restaurant Chain

Teaching Use: Chapter 5 Retail strategy for a theme restaurant

This video can be used alone or in conjunction with Case 1: "Rain Forest Cafe," located in Section V of the textbook.

Summary:

Rainforest Cafe is a theme restaurant in which the customers are seated in a tropical rainforest environment. The video shows the unique design of the restaurant, the types of food served, and the merchandise sold in the restaurant. The use of proprietary animal figures on the merchandise and in the restaurant design is discussed.

In December 2000, Rainforest Café was purchased from the founders by Landry's Seafood Restaurants. At the time, Rainforest Café was experiencing some financial problems due to over expansion. The growth strategy of Rainforest Café focused the development of Rainforest Café restaurants in both high-profile concentrated tourist areas, and in enclosed shopping mall locations. Most of the mall locations had high initial revenues that was followed by prolonged revenue declines. (The repeat business was not high.) While these mall locations generate revenues significantly greater than typical casual dining restaurants, they also had higher operating costs. This video complements Case 1 in the textbook.

Video Segment 6: Build-A-Bear: Experiential Retailing

Teaching Use: Chapter 5 Retail strategy for a specialty retailer

This video can be used alone or in conjunction with Case 2: "Build a Bear Workshop," located in Section V of the textbook.

Summary:

Build-A-Bear Workshop is a national mall-based specialty store retailer with over 100 locations in the U.S. The stores target children and sell store stuffed animals. The unique aspect of the firm's retail offering is that children can create their own unique animals and clothes them. The video discusses the critical issues such as employee training and human resource management for a retailer that provide a high level of customer service.

Video Segment 7: Dominos Pizza in Mexico

Teaching Use: Chapter 5 Retail Market Strategy: Global growth

Before you play the video you could ask students to try and match the pizza topping to the country. After the video you could see how many each student answered correctly. A similar list is presented during the video.

> Pepperoni may be the No. 1 topping in the U.S., but tastes are evidently more eclectic around the world. Domino's Pizza International has made the following additions to the standard Domino's Pizza menu: Source: http://www.dominosbiz.com/Public-EN/Site+Content/Secondary/International/

Country	Pizza Topping
Bahamas	Barbecued Chicken
England	Tuna and Sweet Corn
France	Crème Fraiche

Guatemala	Black Bean Sauce
India	Paneer
Japan	Squid
Korea	Broccoli
Mexico	Chorizo (Spanish Sausage)
Netherlands	Shwarma (Grilled Lamb)

Summary:

Founded in 1960, Domino's Pizza is the recognized world leader in pizza delivery. Domino's operates a network of more than 8,300 franchise and company-owned stores in the United States and more than 55 countries. The Domino's Pizza brand, named a Megabrand by Advertising Age magazine, had approximately $5.1 billion in global retail sales in 2006, comprised of $3.2 billion domestically and nearly $1.9 billion internationally. Source: http://www.dominosbiz.com/Public-EN/Site+Content/Secondary/Franchise+with+Us/

Domino's began expanding its pizza business outside the U.S. in 1983. Domino's success lies in part to its product, pizza seems to be universally accepted, and to its commitment to consistency, the company wants every store to be the same regardless of its location. Still, Domino's has had to make some adjustments to meet the needs of each market. Pizza topping and ingredients reflect local tastes and customs. Delivery methods must also be adapted to individual market conditions. In Japan pizzas are delivered via scooter by people who are very familiar with the neighborhood. Similarly, promotional materials must fit with the market. In Belgium menus are printed in three different languages. Yet, through all of the adjustments to the marketing mix, the company is committed to its core principles.

Domino's is very particular when selecting franchisees to ensure that the company's core principles are emphasized. The company only considers people who are capable of operating a business within corporate guidelines. Domino's provides strong support to its franchisees To facilitate this process. In Mexico for example, the company makes a store visit every 45 days, provides all marketing materials, and provides training.

Video Segment 9: Yum! Brands - Growth Strategies

Teaching Use: Chapter 5 Retail Strategy in a competitive industry

Summary:

This video will introduce students to three different segments of the restaurant industry, explain how Taco Bell reinforces this Mexican-inspired brand, describe the importance of excellent customer service in this industry, and illustrate innovative growth strategies being employed by Yum! Brands.

Based on information from the company's homepage, Yum! Brands, Inc. is the world's largest restaurant company with more than 33,000 restaurants in over 100 countries and territories. Yum! Brands operates several different restaurant brands including A&W, KFC, Long John Silver's, Pizza Hut and Taco Bell. Each brand is a global leader in their food category.

Video Segment 16: McDonalds: A Global Retailer

Teaching Use: Chapter 5 Illustrates issues in expanding globally.

Summary:

McDonald's is truly a global company. It is the world's leading food service retailer with more than 30,000 restaurants in 121 countries serving 46 million customers each day. It is one of the world's most well-known and valuable brands and holds a leading share in the globally branded quick service restaurant segment of the informal eating-out market in virtually every country in which it does business. Some of offerings also are well-known brands themselves -- Serves Big Mac, Quarter Pounder, Chicken McNuggets and Egg McMuffin. This video demonstrates how McDonald's adopts its approach in different countries specifically India.

Video Segment 17: Copy Services – A Growth Opportunity for Staples

Teaching Use: Chapter 5 Retail Market Strategy

Summary:
Staples describes its recent marketing strategy as targeting current customer through an overlooked segment of its business: copy/print centers. The company carefully planned a suitable marketing plan to grow this segment. It started by remodeling stores and promoting the service on staff t-shirts. The company also invested in staff training to provide perfect service to customers. It not only heavily promoted this product/service through television advertising and its Staples rewards program but also updated its technology by offering the same services through its Web site.

Video Segment 35: Potbelly Sandwich Works: Retail Entrepreneurship

Teaching Use: Chapter 5 Retail Market Strategy – Growth Opportunities

Summary:

Potbelly Sandwich Works began in 1977 as a small antique store run by a nice young couple. Despite the fast-paced, never-a-dull-moment world of antique dealing, the couple decided to bolster their business by making sandwiches for their customers. What began as a lark, turned out to be a stroke of genius. Soon, people who couldn't care less about vintage glass doorknobs were stopping by to enjoy special sandwiches and homemade desserts in this unusual atmosphere. As the years passed, the lines grew. Booths were added, along with ovens for toasting sandwiches to perfection, vista-coolers, napkin dispensers, hand-dipped ice cream - even live music. The little antique shop had become the full-fledged, totally unique sandwich joint that you enjoy today. Source: http://www.potbelly.com/.

This video summarizes the marketing strategy of Potbelly Sandwich Works, Inc. along the 4Ps and features interview footage with Bryant Keil, Chairman and CEO of the company. Chicago-based

Potbelly Sandwich Works, Inc. is a chain of sandwich shops that competes in the Quick Serve segment of the restaurant industry. Billed as a unique and "quirky" sandwich joint, Potbelly has strong appeal to young urban professionals. Potbelly's core strategy elements are:

Product: Made-to-order, toasted sandwiches, soups, homemade desserts, malts, shakes, and smoothies; quick and friendly service; live music, antique fixtures, real books, and vintage memorabilia; fun, warm, comfy décor and atmosphere.

Price: One price point ($3.79) for sandwiches; high value (good food at good prices).

Place: Stores averaging 2,200 square feet with indoor and outdoor seating, selected urban areas.

Promotion: Event promotion: store openings, National Sandwich Day, local charities such as food banks, and community based reading and music appreciation programs.

Video Segment 38: Pet Economy: Pampering Your Pet

Teaching Use: Chapter 5 Retail Market Strategy

This video can be used alone or in conjunction with Case 37, PetSmart: Where pets are family, located in Section V of the textbook.

Summary:

Americans spend $41 billion on their pets a year, double what they spent 10 years ago. Annual spending is expected to hit $52 billion in the next two years, according to Packaged Facts, a consumer research company based in Rockville, MD. That puts the yearly cost of buying, feeding, and caring for pets in excess of what Americans spend on the movies ($10.8 billion), playing video games ($11.6 billion), and listening to recorded music ($10.6 billion) combined.

This video looks at pet services from doggie daycare and manicures to $10,000 boarding bills and vet care. New pet products to pamper your furry friends are also described.

The following discussion questions are based on the video and a cover story by Diane Brady and Christopher Palmeri that was published in BusinessWeek online on August 6, 2007.
Source: http://www.businessweek.com/magazine/content/07_32/b4045001.htm?chan=search.

ONLINE LEARNING CENTER

Market Position Matrix

A market attractiveness/competitive position matrix provides a method for analyzing opportunities that explicitly considers both the retailer's capabilities and the retail market's attractiveness. The matrix's underlying premise is that a market's attractiveness determines its long-term profit potential for the opportunity, and the retailer's competitive position indicates the profit potential for the opportunity. The matrix indicates that the greatest investments should be made in the opportunities where the retailer has a strong competitive position in the most attractive markets.

This exercise is designed to go with the Appendix to chapter 5 and the Get Out & Do It exercise #5 on p. 154. You can experiment with Exhibit 5-8 on p. 155, evaluate different merchandise categories in a store, or any other retailing investment opportunity.

You can also demonstrate the use of the matrix to evaluate a retailer's decision to invest in various merchandise categories using the second template in the module using the hypothetical example in the Online Learning Center.

ANNOTATED OUTLINE	INSTRUCTOR NOTES
I. What Is A Retail Strategy? • The term strategy is frequently used in retailing. For example, retailers talk about their merchandise strategy, promotion strategy, location strategy, and private-brand strategy. • Retail strategy isn't just another expression for retail management.	*See PPT 5-5* *Ask students to list all the decisions a retailer makes. Now determine which are strategic and which are tactical. Why?* *Ask students what strategic decisions (type of job) they plan to make when looking for a job after graduation. What tactical decisions (making up and sending out resumes) will they need to make?*
A. Definition of Retail Market Strategy • A **retail strategy** is a statement identifying 1) the retailer's target market 2) the format the retailer plans to use to satisfy the target market's needs, and 3) the bases upon which the retailer plans to build a sustainable competitive advantage. • The **target market** is the market segments(s) toward which the retailer plans to focus its resources and retail mix. • A **retail format** is the retailer's type of retail mix (nature of merchandise and services offered, pricing policy, advertising and promotion programs, approach to store design and visual merchandising, and typical location and customer services). • A **sustainable competitive advantage** is an advantage over competition that is not easily copied and thus can be maintained over a long time.	*See PPT 5-6, 5-7* *Use PPT 5-8 to discuss the retail strategies of Steve & Barry's and Chico's. Put their names on the board and ask the students to identify the retail format and the target markets for each. Then compare with the information listed on PPT 5-9 and 5-10.*
II. Target Market and Retail Format • The **retailing concept** is a management orientation that focuses a retailer on determining the needs of its target market and satisfying those needs more effectively and efficiently than its competitors. • The selection of a target market focuses the retailer on a group of consumers whose	*See PPT 5-11* *Ask students for local retailers that compete directly against each other. What is the target market of the retailers? What is the retail format used?* *PPT 5-12 shows the competition across retail formats for various segments of the women's apparel market.*

needs it will attempt to satisfy. • The selection of a retail format outlines the retail mix to be used to satisfy needs of customers in the target market. • The **retail strategy** determines the markets in which a retailer will compete. • We define a **retail market**, not as a specific place where buyers and sellers meet, but as a group of consumers with similar needs (a market segment) and a group of retailers using a similar retail format to satisfy those consumer needs.	*Use PPT 5-13 to discuss a potential target market strategy for Target.* *See PPT 5-14 for a review of the criteria for selecting target markets.* *Review different ways that markets can be segmented -- target market segments can be defined (see Chapter 4) as: geographic, demographic, psychographic, buying situation, etc.*

III. Building a Sustainable Competitive Advantage • The final element in a retail strategy is the retailer's approach to building sustainable competitive advantage. • Some advantages are sustainable over a long period of time while others can be duplicated by competitors almost immediately. Establishing a competitive advantage means that a retailer builds a wall around its position in the retail market. • Over time, all advantages will be eroded due to these competitive forces. • Seven important opportunities for retailers to develop sustainable competitive advantages are (1) customer loyalty, (2) location, (3) human resource management, (4) distribution and information systems, (5) unique merchandise, (6) vendor relations, and (7) customer service.	*See PPT 5-15, 5-16* *What is the effect of cutting prices in the long-term? What will competitors do? What happens if they also cut prices?* *The inventor of a new key-sized garage door opener feels that her invention would be copied very soon by new competitors. What is the best retail format for the invention?* *[Note that similar inventions are often promoted heavily through infomercials to capture sales very early*] *Ask students to list the number of ways a retailer can get customers to buy from them rather than their competitors. Now, indicate which methods are sustainable -- difficult for competitors to match easily. Why?* *See PPT 5-17, 5-18*
A. Customer Loyalty • **Customer Loyalty** means that customers are committed to shopping at retailer's locations. Loyalty is more than simply liking one retailer over another. Loyalty means that customers will be reluctant to patronize competitive retailers. • Some ways that retailers build customer loyalty are by (1) developing branding strategies along with clear and precise positioning strategies, and (2) creating an emotional attachment with customers through loyalty programs.	*See PPT 5-19, 5-20* *Ask students if they are loyal to any retail outlet. Why are they loyal to that outlet? What can a retailer do to build loyalty?*
1. Retail Brands and Positioning • A **retail brand**, whether it is the name of the retailer or a private label, can create an emotional tie with customers that builds their trust and loyalty. • Retail brands also facilitate store loyalty	*See PPT 5-21, 5-23* *Which retail brands are students familiar with? Which do they prefer over manufacturers' brands? Why?*

because they stand for a predictable level of quality that customers feel comfortable with and often seek.	
2. Positioning. • A retailer builds customer loyalty by developing a clear and distinctive image of its retail offering and consistently reinforcing that image through its merchandise and service. **Positioning** is the design and implementation of a retail mix to create an image of the retailer in the customer's mind relative to its competitors. • A **perceptual map** is frequently used to represent the customer's image and preference for retailers.	*PPT 5-24 shows a hypothetical perceptual map of the women's apparel market.* *Describe the positions of the retailers and segment ideal points. Ask students what retailer customers in segment 5 prefer most. What store is seen as most similar to Neiman Marcus? Most similar to Kmart?*
3. Loyalty Programs. • **Loyalty programs** are part of an overall customer relationship management program (CRM) program (detailed in Chapter 11). • Members of loyalty programs use some type of loyalty card. Purchase information is stored in a huge database known as a **data warehouse**.	*See PPT 5-22* *Ask students how they would use customer purchase information collected over the past year to attract repeat buying.* *Ask student whether or not they are members of frequent shopper clubs. Have they received any direct mail based on their membership in the clubs?*
B. Location • **Location** is the critical factor in consumer selection of a store. It is also a competitive advantage that is not easily duplicated.	*See PPT 5-25* *Ask the class to identify the locations of the nearest McDonald's, Wendy's, and Burger King. Who was in the location first? Describe that specific locale in terms of traffic patterns, etc.* *Why can location provide a sustainable advantage? Which local retailers have a good location? A poor location? Why?*
C. Human Resource Management • Retailing is a labor-intensive business. • Knowledgeable and skilled employees committed to the retailer's objectives are critical assets that support the success of several companies.	*See PPT 5-26* *Discuss how employee commitment to the retailer appears to be varied at different stores frequented by students, as evident by employee turnover, interactions with employees, etc.* *In tight labor markets, and since retailing offers relatively low-paying jobs, at least at the lower*

	levels, what can management do to maintain effective, committed employees.
D. Distribution and Information Systems • All retailers strive to reduce operating costs. They want to get their customers the merchandise they want, when they want it, in the quantities that are required, at a lower delivered cost than their competitors. Retailers can achieve these efficiencies by developing sophisticated distribution and information systems.	*See PPT 5-27* *Ask students to describe their experience at a store where they could not find the product/brand they wanted. If they contacted a store employee, how did this employee respond? Evaluate and discuss.*
E. Unique Merchandise • While it is difficult for retailers to develop a competitive advantage through merchandise, many retailers realize a sustainable competitive advantage by developing **private-label brands** (also called store brands), which are products developed, marketed, and available only at that retailer.	*Ask students if they buy private-label brands from their local supermarket. If so, for which product categories? If not, why not? Also, how does their view of private-label brands sold at stores like Radio Shack and Sharper Image differ from the private-label brands sold at supermarkets and discount stores?* *See PPT 5-28*
F. Vendor Relations • By developing strong relations with vendors, retailers may gain exclusive rights (1) to sell merchandise in a specific region, (2) to buy merchandise with better terms than competitors who lack such relations, or (3) to receive merchandise in short supply. • Relationships with vendors, like relationships with customers, are developed over a long time and may not be easily offset by a competitor.	*See PPT 5-29* *Discuss the example of Kmart's strategy of having electronic links with its vendors and providing many of its vendors with point-of-sale data. By developing computer links with its vendors, Kmart increases its opportunity to have the right merchandise at the right store when the customer wants it. Discuss how this can be an important competitive advantage.*

G. Customer Service • Retailers also build a sustainable competitive advantage by offering excellent customer service. • Offering good service consistently is difficult. Customer service is provided by retail employees – and humans are less consistent than machines. • It takes considerable time and effort to build a tradition and reputation for customer service, but good service is a valuable strategic asset.	*See PPT 5-30* *Ask students about their experiences of good and bad customer service with various retailers. Discuss how customer expectations of service vary with different retail formats.*
Multiple Sources of Advantage • To build a sustainable advantage, retailers typically don't rely on a single approach such as low cost or excellent service. They need multiple approaches to build as high a wall around their position as possible.	*See PPT 5-31* *Pick a successful local retailer. Identify its competitors. Ask students what its sustainable sources of advantage are over its competitors.*
IV. Growth Strategies • Four types of growth opportunities that retailers may pursue are: market penetration, market expansion, retail format development, and diversification.	*See PPT 5-32, 5-33* *McDonald's original market was families with young children and its format was selling hamburgers and french fries in stand alone stores at lunch and dinner time. How would you classify these opportunities McDonald's pursued: breakfasts; locations in office building; locations in schools; adding salads to the menu; adding pizza to the menu; opening up seafood restaurants to compete against Red Lobster.*
A. Market Penetration • A **market penetration** opportunity involves directing investments toward existing customers using the present retailing format. Approaches for increasing market penetration include attracting new customers by opening more stores in the target market or opening the stores for longer hours.	*Consider The Gap, Land's End, and Kmart. What would be examples of market penetration opportunities they could pursue?*

• **Cross-selling** means that sales associates in one department attempt to sell complementary merchandise from other departments to their customers. More cross-selling increases sales from existing customers.	*See PPT 5-34*
B. Market Expansion • A **market expansion** opportunity employs the existing retailing format in new market segments.	*See PPT 5-35* *Consider The Gap, Land's End, and Kmart. What would be examples of market expansion opportunities they could pursue?* *Examples of market expansion are Wal-Mart opening stores in large cities and the Gap starting Gap Kids.*
C. Retail Format Development • A **retail format development** opportunity involves offering customers a new retail format--a format involving a different retail mix--to the same target market. • Adjusting the type of merchandise or services offered typically involves a small investment, while providing an entirely different format, such as a store-based retailer going into electronic retailing, require a much larger and riskier investment.	*See PPT 5-36* *Have the class discuss examples of a retailer adding additional merchandise categories or altering the breadth and depth of the assortment in its stores. Then discuss the pros and cons of this strategy. What type of financial investment would it take. What retailers would benefit from this. Describe their target markets. Consider The Gap, Land's End, and Kmart. What would be examples of format development opportunities they could pursue? Examples of format development are Kmart starting a discount home improvement center -- Builders Square and Land's End opening retail stores.*
D. Diversification • A **diversification** opportunity involves a new retail format directed toward a market segment that is not presently being served.	*See PPT 5-37* *Consider The Gap, Land's End, and Kmart. What would be examples of diversification opportunities they could pursue?* *An example of diversification is Kmart buying Walden Books.*
1. Related versus unrelated diversification • Diversification opportunities are either related or unrelated.	*Discuss the example of JCPenney's two investments in electronic shopping (TeleAction and JCPenney Television Shopping Channel). TeleAction was an interactive electronic home*

• In a **related diversification opportunity**, the present target market and/or retail format shares something in common with the new opportunity. This commonality might entail purchasing from the same vendors, using the same distribution and/or management information system, or advertising in the same newspapers to similar target markets. • In contrast, an **unrelated diversification** lacks any commonalty between the present business and the new business.	*shopping system selling a variety of merchandise, from food to ticket reservations. Since little of the merchandise was sold through the Penney stores or catalog, the system was an unrelated diversification because it didn't involve Penney's catalog ordering and distribution system. On the other hand, the Television Shopping Channel was a related diversification because it offers predominantly Penney merchandise shipped through its mail-order catalog distribution system. It's like an electronic catalog TV show.* *For The Gap, Land's End, and Kmart, what would be examples of related versus unrelated diversification opportunities? What about Sears buying a manufacturer of home appliances?*
2. Vertical integration • **Vertical integration** is diversification by retailers into wholesaling or manufacturing. • When retailers integrate by manufacturing products, they are making risky investments because the skills required to make products are different from those associated with retailing them. • Note that designing private label merchandise is a related diversification because it builds on the retailer's knowledge of its customers, but actually making the merchandise is considered an unrelated diversification.	
E. Strategic Opportunities and Competitive Advantage • Typically, retailers have the greatest competitive advantage in opportunities that are similar to their present retail strategy. Thus, retailers would be most successful engaging in market penetration opportunities that don't involve entering new, unfamiliar markets or operating new, unfamiliar retail formats. • When retailers pursue market expansion opportunities, they build on their strengths in operating a retail format and apply this	

competitive advantage in a new market. • Retailers have the least competitive advantage when they pursue diversification opportunities. These opportunities are generally risky and often don't work.	
V. Global Growth Opportunities • International expansion is one form of a market expansion strategy. The most commonly targeted regions are Mexico, Latin America, Europe, China, and Japan. • International expansion is risky because retailers using this growth strategy must deal with differences in government regulations, cultural traditions, different supply chain considerations, and language.	*See PPT 5-38* *Ask students to generate international growth opportunities for The Gap, The Wet Seal, Wal-Mart, and a regional grocery store chain. Discuss why different opportunities might be attractive to each of these retail chains.*
A. Who is Successful and Who Isn't • Retailers with an offering that has universal appeal, such as distinctive merchandise or low cost, are the most successful at exploiting global markets. Some of the most successful global retailers are specialty store retailers with strong brand images and/or unique merchandise. • Category specialists and supercenter retailers may be particularly suited to succeed internationally because of their operating efficiencies. • These retailers are leaders in their use of technology to manage their inventory and distribution systems, and enjoy economies of scale that translate into good values for consumers around the globe.	*See PPT 5-30, 5-40* *Which U.S. based retailers have been successful going global?* *Which non-U.S. based retailers have been successful in the U.S.?* *Discuss the reasons why category killers and hypermarkets may be more successful internationally. These reasons include: (1) experienced use of technology to manage inventories, control global logistical systems and tailor merchandise assortments; (2) buying economies of scale and efficient distribution systems; (3) development of unique systems and standardized formats facilitating better control; (4) focused communications due to narrow assortment and focused strategy; and (5) willingness of global consumers to forgo service for lower prices.*
B. Keys to Success • Four characteristics of retailers that have successfully exploited international growth opportunities are: (1) globally sustainable competitive advantage, (2) adaptability, (3) global culture, and (4) financial resources.	*See PPTs 5-41, 5-42*

1. Globally sustainable competitive advantage • Entry into nondomestic markets is most successful when the expansion opportunity is consistent with the retailer's core bases of competitive advantage.	*Consider a retailer such as Wal-Mart. What are international market conditions necessary for Wal-Mart to succeed with its low cost, efficient operations strategy?*
2. Adaptability • While successful global retailers build on their core competencies, they also recognize cultural differences and adapt their core strategy to the needs of local markets. • Store designs and layouts often need to be adjusted in different parts of the world. For instance, while discount stores in the U.S. are usually quite large and one level, stores in nations where space is at a premium must be designed to fit a smaller space and use multiple levels. • Government regulations and cultural values also affect store operations. Some differences, such as holidays, hours of operations, and regulations governing part-time employees and terminations are easy to identify. Other factors require a deeper understanding	*Wal-Mart has stumbled in some international markets because they underestimated the differences in cultures, e.g., Argentina.*
3. Global Culture • To be global, one has to think global. It is not sufficient to transplant a home-country culture and infrastructure into another country.	*Ask students to think of some products that could be considered uniquely American. What cultural adaptations need to be made before these products are marketed in nondomestic markets?*
4. Financial Resources • Expansion into international markets requires a long-term commitment and considerable up front planning.	*What can smaller retailers do to succeed internationally?*
C. Evaluating Global Growth Opportunities • From the retailer’s perspective, some countries represent better growth opportunities than others.	

• Operational restrictions on retailers were lifted in China in 2004, leading to a number of retailers moving into the country. Doing business in China remains a challenge, though, due to increasing operating costs, challenges in finding and retaining talented management personnel, and inefficient supply chains. • India has become an attractive market for retailers because it has a population of over 1billion, solid economic growth, and a growing middle-class. The challenge to retailers here is that a majority of consumers prefer small, family-owned shops.	*See PPT 5-43 for the review of the top 20 countries ranked by overall opportunity.*
• Three opportunity dimensions – growth, risk, and market size – are used to portray the top 30 countries. The U.S., U.K., Taiwan, and Malaysia fall in the "Best Opportunity" quadrant of the diagram, with Australia and Canada just on the fringe of the quadrant. • Moving into global markets requires all the same success factors as opening up any store – a good strategy that is sustainable, a strong financial position, and a little luck. • However, global expansion requires much more. To succeed in global expansion, retailers must: (1) act like they are local and understand their customers' needs, (2) understand and act appropriately in response to subtle nuances between markets and countries, (3) ensure their timing is right, and (4) be selective.	*See PPT 5-44 for a matrix representing the three opportunity dimensions.*

D. Entry Strategies • Four approaches that retailers take when entering non-domestic markets are direct investment, joint venture, strategic alliance, and franchising.	*See PPT 5-45* *Have the students choose a retailer who has or could go global. Ask them to choose and justify an entry strategy.*
1. Direct Investment • **Direct investment** involves a retail firm investing in and owning a division or subsidiary that builds and operates stores in a foreign country. • This entry strategy requires the highest level of investment and exposes the retailer to significant risks, but has the highest potential returns.	*Identify the products/services/conditions for which the retailer would prefer direct control over global operations offered by a direct investment strategy.*
2. Joint Venture • A **joint venture** is formed when the entering retailer pools its resources with a local retailer to form a new company in which ownership, control, and profits are shared. • A joint venture reduces the entrant's risks. The local partner understands the market and access to resources – vendors and real estate. • Problems with this entry approach can arise if the partners disagree or the government places restrictions on the repatriation of profits.	*Would a retailer be more likely to use a joint venture when entering Canada or when entering China? Discuss.*
3. Strategic Alliance • A **strategic alliance** is a collaborative relationship between independent firms. For example, a foreign retailer might enter an international market through direct investment but develop an alliance with a local firm to perform logistical and warehousing activities.	*Strategic alliances are often used for learning about a country's unique environment and other business conditions.*
4. Franchising	

• **Franchising** offers the lowest risk and requires the least investment. However, the entrant has limited control over the retail operations in the foreign country, profit potential is reduced, and the risk of assisting in the creation of a local domestic competitor is increased.	
VI. The Strategic Retail Planning Process • The **strategic retail planning process** is the set of steps that a retailer goes through to develop a strategic retail plan. • It describes how retailers select target market segments, determine the appropriate retail format, and build sustainable competitive advantages. • The planning process can be used to formulate strategic plans at different levels within a retail corporation.	*PPT 5-46 charts the steps in the strategic planning process.* *Go through the various stages of the planning process for a local retailer or pick an idea for a new retail business and develop a strategic plan for the business.* *Go through the various stages of the planning process for the example of Gifts To Go given in text.* *PPT 5-53 to PPT 5-62 detail the application of the planning process for Gifts To Go.*
A. Step 1: Define the Business Mission • The **mission statement** is a broad description of a retailer's objectives and the scope of activities it plans to undertake. It should define the general nature of the target segments and retail formats that the firm will consider. • In developing the mission statement, managers must answer five questions: (1) What business are we in? (2) What should be our business in the future? (3) Who are our customers? (4) What are our capabilities? (5) What do we want to accomplish?	*Why does a retailer need to have a formal mission statement? Define a mission for Sears, which includes its financial services, insurance company, and real estate brokerage. Define a mission for Wal-mart.* *Define a mission for your college or university.*
B. Step 2: Conduct a Situation Audit • A **situation audit** is an analysis of the opportunities and threats in the retail environment and the strengths and weaknesses of the retail business relative to its competitors. • A situation audit is composed of four	. *See PPT 5-47* *Conduct a situation audit for any department store most familiar to students.*

elements: market factors, competitive factors, environmental factors, and strengths and weaknesses analysis.	
1. Market Factors • Some critical factors related to consumers and their buying patterns are market size and growth, sales cyclicality, and seasonality. Market size, typically measured in retail sales dollars, is important because it indicates a firm's opportunity for generating revenues to cover its investment. • Large markets are attractive to large retail firms, but they are also attractive to small entrepreneurs because they offer more opportunities to focus on a market segment. Growing markets are typically more attractive than mature or declining markets. • In general, markets with highly seasonal sales are unattractive because a lot of resources are needed to accommodate the peak season, but are underutilized the rest of the year.	*What makes a market attractive? Ask for examples of attractive and unattractive markets. How attractive over the long-term is the elderly market? The Tween market?* *See PPT 5-48*
2. Competitive Factors • The nature of the competition in retail markets is affected by barriers to entry, the bargaining power of vendors, and competitive rivalry. Retail markets are more attractive when competitive entry is costly. • **Barriers to entry** are conditions in a retail market that make it difficult for firms to enter the market. These conditions include scale economies, customer loyalty, and availability of locations. • **Scale economies** are cost advantages due to a retailer's size. Markets dominated by large competitors with scale economies are typically unattractive. • Retail markets dominated by a well-established retailer that has developed a loyal group of customers offer limited profit	*See PPT 5-49* *What are examples of retail markets that have high entry barriers? Low entry barriers? Are there entry barriers for a new fast food franchise in the local community? A new department store? A new discount store specializing in toys?* *Take a set of local competitors and evaluate how intense the rivalry is.* *Compare competitive issues for a bricks and mortar retailer versus a multichannel and an Internet-only retailer.*

potential. • The availability of locations may impede competitive entry. • A retail market with high entry barriers is very attractive for retailers presently competing in that market, but unattractive for retailers not already in that market. • Another competitive factor is the **bargaining power of vendors.** Markets are unattractive when a few vendors control the merchandise sold in it. In these situations, the vendors have an opportunity to dictate prices and other terms, such as delivery dates, and thus reduce the retailer's profits. • The final industry factor is the level of **competitive rivalry** in the retail market, which is the frequency and intensity of reactions to actions undertaken by competitors. Conditions that may lead to intense rivalry include: (1) a large number of competitors that are all about the same size, (2) slow growth, (3) high fixed costs, and (4) the lack of perceived differences between competing retailers.	
3. Environmental Factors • Environmental factors that affect market attractiveness are technological, economic, regulatory, and social changes. • When a retail market is going through significant changes in technology, present competitors are vulnerable to new entrants that are skilled at using the new technology. • Some retailers are more affected by economic conditions than others. • Government regulations can reduce the attractiveness of a retail market. • Finally, trends in demographics, lifestyles, attitudes, and personal values affect retail markets' attractiveness.	*See PPT 5-50* *Analyze some potential changes in the environment such as people becoming more health conscious about the food they eat, more concerned about the environment, more interested in having experiences rather than buying products. Review some of the changes discussed in Chapter 4. Ask students how these changes will affect specific retailers?* *Government regulations reduce the attractiveness of a retail market by making it costly to build stores (zoning laws) and hire employees (wage regulations).*

4. Strengths and Weakness Analysis • The most critical aspect of the situation audit is for a retailer to determine its unique capabilities in terms of its strengths and weaknesses relative to the competition. A **strengths and weaknesses analysis** indicates how well the business can seize opportunities and avoid harm from threats in the environment.	*See PPT 5-51* *PPT 5-52 details a format of strengths and weaknesses analysis. This could be applied to a local retailer.*
C. Step 3: Identify Strategic Opportunities • After completing the situation audit, the next step is to identify opportunities for increasing retail sales. The strategic alternatives are defined in terms of the squares in the retail market matrix.	
D. Step 4: Evaluate Strategic Opportunities • The evaluation of strategic opportunities identified in the situation audit determines the retailer's potential to establish a sustainable competitive advantage and reap long-term profits from the opportunities under evaluation. • Thus, a retailer must focus on opportunities that utilize its strengths and its area of competitive advantage. • Both the market attractiveness and the strengths and weaknesses of the retailer need to be considered in evaluating strategic opportunities. • The greatest investments should be made in market opportunities where the retailer has a strong competitive position.	*Go through the example in the text evaluating the merchandise categories in a department store.* *Have students evaluate the market attractiveness and competitive position of some opportunities the local college bookstore is presently pursuing and is considering:* *a. college textbooks,* *b. clothing with the college name on it,* *c. fashionable brand name clothing,* *d. fast food,* *e. renting DVDs.* *Have students list the factors and go through the ratings.*
E. Step 5: Establish Specific Objectives and Allocate Resources • The retailer's overall objective is included in the mission statement. The specific objectives are goals against which progress toward the overall objective can be measured.	*Ask students which opportunities the bookstore should pursue. Relate these opportunities to the competitive advantages the bookstore has.*

• Specific objectives have three components: (1) the performance sought, including a numerical index against which progress may be measured, (2) a time frame within which the goal is to be achieved, and (3) the level of investment needed to achieve the objective. • Typically, the performance levels are financial criteria such as return on investment, sales, or profits.	
F. Step 6: Develop a Retail Mix to Implement Strategy • The next step is to develop a retail mix for each opportunity in which investment will be made and to control and evaluate performance.	
G. Step 7: Evaluate Performance and Make Adjustments • The final step in the planning process is evaluating the results of the strategy and implementation program. • If the retailer fails to meet its objectives, reanalysis is needed. This reanalysis starts with reviewing the implementation programs; but it may indicate that the strategy (or even the mission statement) needs to be reconsidered. This conclusion would result in starting a new planning process, including a new situation audit.	
H. Strategic Planning in the Real World • As described here, the strategic decisions in the planning process seem to be made in a sequential manner. After the business mission is defined, the situation audit is performed, strategic opportunities are identified, alternatives are evaluated, objectives are set, resources are allocated, the implementation plan is developed, and finally, performance is evaluated and adjustments are made.	*Ask students to relate the strategic decision making process to the strategy they will use for seeking a job after graduation. Will they go through all the steps? Why or why not? Will their strategy change as they look? Why or why not?*

• But, actual planning processes have interactions among the steps. For example, the situation audit may uncover some logical alternative for the firm to consider, even though this alternative is not included in the mission statement.	
VII. Summary • A retailer's long-term performance is largely determined by its strategy. A strategy coordinates employees' activities and communicates the direction the retailer plans to take. • Retail market strategy describes both the strategic direction and the process by which the strategy is to be developed. • The retail strategy statement indicates an identification of a target market and the retail format (its offering) to be directed toward that target market. The statement also needs to indicate the retailer's methods to build a sustainable competitive advantage.	
Appendix 5A: Using the Market Attractiveness-Competitive Position Matrix • There are six steps in using the matrix to evaluate opportunities for strategic investments: • 1. Define the strategic opportunities to be evaluated. • 2. Identify key factors determining market attractiveness and the retailer's competitive position. • 3. Assign weights to each factor used to determine market attractiveness and competitive position. • 4. Rate each strategic investment opportunity on the attractiveness of its market and the retailer's competitive	*See PPT 5-63 to 5-66*

position in that market. • 5. Calculate each opportunity's score for market attractiveness and competitive position. • 6. Plot each opportunity on the matrix.	

ANSWERS TO DISCUSSION QUESTIONS AND PROBLEMS

1. **For each of the four retailers discussed at the beginning of the chapter (Steve & Barry's, Chico's, Curves, and Magazine Luiza), describe its strategy and the basis of its competitive advantage.**

   Chico's specializes in comfortable, easy-to-wear apparel designed for women in the age group of 35-55 years old. The company sells only its own brand and has complete control over its supply chain. The emphasis on private labels, a strong customer loyalty program, and high-quality customer service with emphasis on a person-to-person relationship with each customer, differentiate the retailer from other competitors, and ensure not only repeat sales, but also a higher transaction size among its loyal patrons.

   Curves targets those consumers who have not considered gym membership before, focusing on the women of the Baby Boomer market who live in small towns. Curves franchises offer a very different service from the traditional gym, at a much lower price. The Curves service is built around a 30-minute circuit of 8 to 12 hydraulic resistance machines.

   Magazine Luiza, a Brazilian consumer electronics and appliance store, targets low income consumers with installment payment plans and affordable credit rates. The retailer also provides services like personal loans and insurance policies that would be out of range for many of its target consumers.

   Through its nearly 200 store, Steve & Barry's offers a merchandise mix including university logoed sportswear, humorous t-shirts, and basic clothing for men, women and children. Key success strategies for Steve & Barry's include: gaining aggressive incentives from mall owners, applying creative strategies to working with vendors, and paying for virtually no advertising. These strategies allow the retailer to offer surprisingly high quality merchandise at prices below $15. Save-A-Lot, a wholly owned subsidiary of SuperValu, operates at highest levels of efficiency. By offering only the most popular items in its stores, Save-A-Lot has been able to reduce its costs dramatically and reduce its prices to as much as 40 percent below typical conventional supermarket prices. Much of the success of this strategy is due to the buying power Save-A-Lot has been able to achieve allowing the chain to offer high-quality private label merchandise at low prices.

2. **Choose a retailer and describe how it has developed a competitive strategic advantage.**

   Students' choices will vary widely here. In each case, the description of the retailer's development of a competitive strategic advantage should follow one of the seven basic approaches described below.

   Customer Loyalty: In order to keep customers committed to shopping at their store(s) and/or Web sites, retailers can build customer loyalty by (1) emphasizing a unique positioning, and (2) developing loyalty programs. For example, retailers can try to design a retail mix that creates an image in the customer's mind, which will keep them committed to the retailer. Or, by implementing customer loyalty programs, as part of a broader customer relationship management (CRM) program, and maintaining and analyzing customer purchasing data, retailers can develop strategies to create and maintain a loyal customer base.

Location: Location is one of the most important factors in retailing. For example, if a retailer is the only one of its kind in a certain area, or is set in a high traffic area with a visible store front, the retailer has a competitive advantage.

Human Resource Management: Since retailing is a labor-intensive business and also has high levels of contact between employees and customers, retailers need to develop programs to motivate and coordinate employee efforts. These are usually done by providing appropriate incentives for employees, fostering a strong and positive organizational culture, and managing diversity.

Distribution and Information Systems: Retailers can achieve significant operational efficiencies through developing sophisticated distribution and information systems. Efficient operations reduce retailer costs, and thus, enable retailers to provide the same or similar merchandise at lower prices than their competitors.

Unique Merchandise: Retailers can develop sustainable competitive advantage by offering private-label brands.

Vendor Relations: Retailers may gain exclusive rights to sell merchandise in a region, to buy merchandise at lower prices, or to receive popular merchandise in short supply through strong vendor relationships.

Customer Service: Retailers can build competitive advantage by offering excellent customer service. This involves instilling the importance of good customer service in employee training and performance and consciously developing a reputation for good service.

Retailers should not rely on a single approach to gain a sustainable competitive advantage, but instead, should use multiple approaches.

3. Give an example of a market penetration, a retail format development, a market expansion, and a diversification growth strategy that Best Buy might use.

Market Penetration: Best Buy could offer coupons, frequent purchase promotions, etc. to increase sales among existing customers using its present format.

Retail Format Development: Best Buy already offers a new format to the same target market in their online retailing at www.bestbuy.com. However, they could offer additional merchandise categories such as more types of accessories including computer desks, chairs, television stands etc.

Market Expansion: Best Buy with its existing retail format could geographically expand (international) and or target promotions to specific market segments that it may not currently be targeting (senior citizen and/or student discounts).

Diversification: Backward integration into electronics manufacturing would represent a related diversification strategy for Best Buy, while opening retail stores for automobile service and repair would represent an unrelated diversification strategy.

4. **Choose your favorite retailer. Draw and explain a positioning map, like that shown in Exhibit 5-3, that includes your retailer, retailers that sell the same types of merchandise, and the customer segments (ideal points).**

Students' answers will depend on the market in which they live and their preference of retailer. For a bicycle retailer, the dimensions could be: High price/service and low price/service for one dimension and broad assortment (mountain bikes, road bikes, tandems, kids, lots of accessories) and narrow assortment (road bikes only) on the other dimension.

5. **Do a situation analysis for McDonald's. What is its mission? What are its strengths and weaknesses? What environmental threats might it face over the next 10 years? How could it prepare for these threats?**

McDonalds' mission is to provide hygienic food with the minimum waiting time to customers through conveniently located outlets.

Its strengths include:

- Well known brand name with a loyal group of customers
- Consistency in offering over time and at different locations. They might not have the best food, but you know what you are getting when you go to a McDonald's
- Excellent systems for delivering a limited menu with consistent quality and low cost
- Excellent locations across the US and world

Some weaknesses include:

- Narrow menu options
- Limited customization options – patrons typically do not have the option to customize a specific item (e.g., a hamburger with more onions, less lettuce, more beef, etc.)
- Fast foods, in general, may not be perceived to be nutritious or healthy by some consumers, therefore limiting future market expansion

Environmental Threats:

- People have become more health conscious about what they eat *(To prepare for this, McDonald's might add more healthy items to the menu like veggie burgers and salads)*
- The quality and convenience of frozen food might make it easy for people to prepare a quick frozen meal at home or at the office. *(To prepare for this threat, McDonald's might sell frozen meals in grocery stores.)*

6. **What are Neiman Marcus's and Save-A-Lot's bases for sustainable competitive advantage? Are they really sustainable, or are they easily copied?**

Neiman Marcus offers extensive service and stocks fashion merchandise that could be called "fashion forward," since these may be offered first and/or exclusively at these stores. Their prices are higher than those charged by other retailers for similar product categories, but they cater to a wealthier than average target market of customers for whom fashion and service may be more important than low price. The multiple bases for competitive advantage used by Neiman Marcus are unique positioning, location in upscale malls or neighborhoods so as to be closer to target market segments, unique merchandise, and a heavy emphasis on customer service. The combination of these sources of competitive advantage makes their strategy quite sustainable.

Alternatively, Save-A-Lot offers a very limited supply of high-quality private label merchandise at extremely low prices. Their merchandise is offered to consumers at significantly lower prices than conventional supermarkets, with limited customer service levels, appealing to price conscious and lower income consumers. Though very different in approach than Neiman Marcus, Save-A-Lot also uses multiple bases for competitive advantage including unique merchandise and its strength in vendor relations. The combination of these sources of competitive advantage makes their strategy sustainable.

7. Assume you are interested in opening a restaurant in your town. Go through the steps in the strategic planning process shown in Exhibit 5-6. Focus on conducting a situation audit of the local restaurant market, identifying and evaluating alternatives, and selecting a target market and a retail mix for the restaurant.

(1) Define the Business's Mission: Looking to be in the Italian restaurant business, my target market would be those customers in my local town and surrounding towns interested in paying money for an authentic Italian meal in a romantic setting. The mission of this restaurant would be to have high quality food, in a romantic setting, while avoiding being too expensive for those interested in a special meal.

(2) Conduct a Situation Audit: Market Factors include the size of the market interested in Italian food and the growth potential of this particular market. Competitive factors include how hard it is to enter the Italian Restaurant Market including the start up costs, and the number of other Italian Restaurants in the area along with alternatives. The environmental factors would include the social and economic. The restaurant business focuses on the social aspect of dining out. Is there a growing trend in those people eating out? With the shifting roles of women in society, there is often less time for cooking, which may in turn increase dining out. What impact does the economy have on consumers' decisions to spend their dollars on dining out? The analysis of strengths and weaknesses allows a retailer to judge their potential success. The strengths and weaknesses in this situation could include my financial resources, the availability of a good location, my restaurant management experience, my need to build customer loyalty, and my prospects of good operations.

(3) Identify Strategic Opportunities:

- Market Penetration: Can I increase the variation on my menu, open another restaurant in another neighborhood?
- Market Expansion: Open a to-go style restaurant, open a restaurant in another geographic area
- Retail Format Development: Sell candles with the restaurant name on them, or develop an online ordering format for to-go style meals.
- Diversification: Manufacture Spaghetti Sauce under the restaurant name, or open an Italian food grocery store.

(4) Evaluate Strategic Opportunities: In evaluating the alternatives, we must look at both the market attractiveness and the competitive position. Retailers can maximize their growth opportunities by investing in areas that have high market attractiveness and a low competitive

position. In the restaurant business, this might include opening additional restaurants, opening a to-go restaurant, and manufacturing their own food products, like spaghetti sauce.

(5) Establish Specific Objectives and Allocate Resources: After finding growth opportunities, resources must be allocated to each opportunity. This is done by looking at the performance sought, the time frame needed, and the level of investment needed to accomplish the objective.

(6) Develop a Retail Mix to Implement Strategy: (Merchandise and services offered, merchandise pricing, advertising and promotional programs, store design, and convenience of the store's location): The restaurant will offer a large variety of Italian dishes with a large experienced wait staff, the pricing will be medium to high to attract the upscale customer and show the value of the food, the advertising will start with publicity on the opening of the business and then focus on word of mouth, promotional programs may be implemented to frequent eaters, store design will be small, elegant, and romantic with many tables for two and private tables, and the location would be in a downtown area. After this strategy is implemented, a retail mix can be developed for the growth opportunities.

(7) Evaluate Performance and Make Adjustments: The final step of the planning process is evaluating the results of the strategy and implementation program.

8. Abercrombie & Fitch (A&F) owns several chains, including abercrombie that targets ages 7 to 14 years, Hollister Co., that targets ages 14-18 years, Abercrombie & Fitch that targets the 18-22 year old crowd, and RUEHL & Co that appeals to the 22-35 year old group. What type of growth opportunity was A&F pursuing when it opened each of these retail concepts? Which is most synergistic with the original A&F chain?

Developing retail concepts to target specific markets offered A&F a number of market expansion strategies. Each of the concepts described here is very similar to the others. Merchandise categories are the same, basic store layouts are the same (yet with image and fixture differences appropriate to the target markets) and even the brand's Web site follow a very similar format, though emphasizing models and fashion styling appropriate to their respective target markets.

Students could also consider the market penetration strategy as appropriate here. The multiple A&F brands/formats are closely related enough that one could argue expected overlap in consumers. Students may suggest the abercrombie chain for the youngest consumers is the most closely related as everything from its name to its merchandise very closely follows the original A&F format. They may suggest that RUEHL and Hollister are intended to be somewhat distinct from A&F as the brands are not connected for an obvious relationship. Students who have visited a RUEHL concept store may also not that the design and visual elements are constructed much differently than the traditional A&F store.

9. Identify a store or service provider that you believe has an effective loyalty program. Explain why it is effective.

An example that would readily come to mind to most students would be frequent flyer programs of various airlines. Many airlines not only award frequent flyer miles on airline travel but also carry out these programs in partnership with credit card companies and retailers. The effectiveness of such programs depends on the extent to which there are various levels of rewards and bonuses and the availability of multiple opportunities to earn points toward a reward.

10. **Choose a retailer that you believe could be, but is not yet, successful in other countries. Explain why you think it could be successful.**

A nonstore retailer such as Amazon.com is poised to be successful globally with the increasing spread and prevalence of the Internet and World Wide Web. Since the costs associated with entry and set up are less than in conventional retailing and most products carried by Amazon.com are quite standardized, Amazon.com could pursue a cost-efficient and effective global expansion strategy. However, such an expansion strategy would have to await infrastructure development in various countries. The success of Amazon.com's global strategy would come from utilizing technological and global efficiencies of scale, lower costs of operations, enhanced customer service at lower costs due to better customer information and relationship management, and better adaptability to local tastes and preferences due to superior information collection and analysis.

11. **Amazon.com started as an Internet retailer selling books. Then it expanded to groceries, DVDs, apparel, software, travel services, and basically everything under the sun. Evaluate these growth opportunities in terms of the probability that they will be profitable businesses for Amazon.com. What competitive advantages does Amazon.com bring to each of these businesses?**

[In discussion with students, it is important to note that for several of the product categories listed here, Amazon.com serves as the Internet channel for individual retailers such as Target, Toys R Us, etc.]

Groceries and Apparel: These categories represent somewhat risky growth propositions for Amazon.com. The web grocery business has a few well positioned competitors (www.tesco.com and www. peapod.com) that are more focused on the online grocery segment. These competitors have developed business models specifically around providing the grocery merchandise and services that customers in the channel expect. While Amazon.com may compete well on price on non-perishable food items in small size that can be shipped easily, as books can, they are less well prepared to compete on other types of grocery purchases. In terms of apparel retailing online, there are many players in this market and the prices may not be much lower on Amazon's site as compared to those offered by other players in these markets. Apparel shopping on Amazon.com is most likely to succeed with those consumers who want a one stop shop for clothing, books, entertainment, small appliances, etc.

DVDs: These growth opportunities will most likely be profitable because, like books, they do not need to be touched and felt prior to purchase. Most customers will feel very comfortable ordering DVDs over the Internet without previous viewing or experience. The primary threat to profitability here is competitive from movie downloads and increasingly popular pay per view and DVD rental services. Yet for those consumers interested in purchasing and owning DVDs, Amazon.com will bring a competitive advantage to selling DVDs mainly through their name recognition over many other dot.com companies. Also, Amazon has an amazing database system that will be able to better target their customers and keep track of their purchases. Amazon’s distribution system will be able to deliver the goods in minimal time at a minimal cost.

Software: Since software is an information product, even the distribution of the product could be over the Internet. Thus, instead of costly packaging and stocking at retail stores, Amazon could simply offer the product for immediate download, thereby also providing the immediate gratification that is typically lacking for most products purchased over the Internet. The lower costs of distribution coupled with the already lower costs of operations, could render this category quite profitable for Amazon. However, larger software manufacturers, such as Microsoft, Adobe, Real Networks, Broderbund, etc. already have their own retail and distribution site and may use Amazon only for expansion to market segments that they are not currently serving.

Internet Travel Site: This market expansion to a new service has its strengths and weaknesses. Amazon may attract a larger customer base by offering this new service. However, most travel, including airline travel is now viewed as a commodity, with consumers often deciding more on price than on brand name. There is more intense competition and the prices may not be much lower on Amazon's site as compared to those offered directly by the service providers.

ANCILLARY LECTURES AND EXERCISES

Ancillary Exercise

Use PPT 5-7 to discuss McDonald's strategy, analyze its competitive position, and the potential threats it faces.

Question	Potential Responses
What is McDonald's target market?	While McDonald's has a broad market, its principle target market is probably families with young children. Another market might be people on the go how need to pick up something to eat as they go from on task or appointment to another.
What is McDonald's offer (retail format in the language used in the text)?	The initial response will probably be the benefits that McDonald's offers its customers such as convenience, low price meal, and probably the biggest benefit is consistency. It might not be the best hamburger, but it will not be the worst—it will typically be the same from location to location. However, at a strategic level what McDonald's is providing is fast food—food that can be prepared with an industrial-like process—a process that does not required skilled employees (chefs).
What is McDonald's basis of competitive advantage?	• a well recognized and highly regarded international brand name • customer loyalty arising from the consistency with which its service is provided • good locations • a skill in providing using an industrial-like process to provide a highly consistent food offering
What growth opportunities might McDonald's consider?	• market penetration—increase meals served at breakfast and dinner to the same customer that eat at lunch. Get more customers to buy French fires when they buy a hamburger. Sell food the parents when they bring kids in for a meal. • market extension—expand to more countries in the world.

	• retail format extension—drive in one-hour film processing stores
What threats does McDonald's face?	McDonalds is really in a strong competitive position and its is unlikely that firms using similar formats like Burger King and Wendy's will be able to seriously challenge McDonalds for industry leadership. However, there might be threats in the environment such as people becoming more health conscious and decline to eat fast food. Another threat might be the development of higher quality take-out food from a convenient location and the higher quality frozen food.

ADDITIONAL ASSIGNMENTS AND EXERCISES

Exercise 5-1

International Retail Market Strategy – Reading Assignment

Read the following article. After answering the questions below, be prepared to discuss in class.

> "International retailing a work in progress." MMR, May 26, 2003. (Business & Company Resource Center)

1. Characterize the key issues in the external environment that a would impact a global retailer in each of the following geographic locations:

Location	Key Issues in the External Environment
France & Germany	
China	
Japan	
Latin America	
United States	

2. Describe why a global retailing strategy requires thorough analysis and planning to effectively manage risk.

Exercise 5-1 with Answers

International Retail Market Strategy – Reading Assignment

Read the following article. After answering the questions below, be prepared to discuss in class.

> "International retailing a work in progress." MMR, May 26, 2003. (Business & Company Resource Center)

1. Characterize the key issues in the external environment that a would impact a global retailer in each of the following geographic locations:

Location	Key Issues in the External Environment
France & Germany	*High levels of regulations limiting store development*
China	*Economy is growing at an amazing pace and rapid modernization in the retail sector*
Japan	*Banking crisis, deflation, access to capital is difficult for growth* *Mega retailer chains are entering and this will transform Japanese retailing*
Latin America	*Argentine and Venezuelan economies are in a state of collapse and hurting global retailers in their borders* *Brazil rebound* *Mexico solid performance, but impacted by US economy*
United States	*Consumer uncertainty post war in Iraq* *Overall economic strength even with job losses* *Will Carrefour and Tesco take on Wal-Mart and other successful American retailers on their own turf?*

2. Describe why a global retailing strategy requires thorough analysis and planning to effectively manage risk.

Uncertainty is prevalent in this type of undertaking. Laws, regulations and politics; culture and language; infrastructure; resources; and the economy and strength of the currency vary from country to country.

Even though a retailer was successful in their home country this does not necessarily mean that the same retail mix and format would be accepted in another location. The retailer must be adaptable and thoroughly consider the elements of the external environment to evaluate opportunities and threats facing the organization in each region/country.

After completing a situational analysis the retailer can ask, is expansion possible in this location? Will the organization be able to reach its goals and objectives of growth, profit and market share considering the costs and benefits of global expansion?

Exercise 5-2

Retail Market Strategy – In-class Exercise

Sustainable Competitive Advantage for a Regional Grocery Store

Read the material from Giant's homepage http://www.giantfood.com/main.htm and describe how this retailer is creating sustainable competitive advantage in the grocery store category. Be prepared to discuss your responses with the entire class.

Sustainable Competitive Advantage	Giant's Implementation
Customer Loyalty	
Location	
Distribution	
Merchandise	
Customer Service	
Human Resources	

Exercise 5-2 with Answers

Retail Market Strategy – In-class Exercise

Sustainable Competitive Advantage for a Regional Grocery Store

Read the material from Giant's homepage http://www.giantfood.com/main.htm and describe how this retailer is creating sustainable competitive advantage in the grocery store category. Be prepared to discuss your responses with the entire class.

To have students complete this exercise in class you will need to print out the following pages from this retailer's homepage and make a packet for each team:

Welcome to Giant
Online ordering
Giant brand products
BonusCard Center
Store locator
Corporate Information/Giant at a glance
Careers at Giant

Sustainable Competitive Advantage	**Giant's Implementation**
Customer Loyalty	*Bonus card program; Sweepstakes Coupons; A+ Bonus Bucks for schools Weekly circular; Savings with partners Savings at checkout; Personalized offers*
Location	*Convenient to work or home 197 stores in MD, Delaware, New Jersey, DC and Virginia Good parking Neighborhood strip centers*
Distribution	*Processing plants for dairy and ice in Landover, and ice cream in Jessup. Distribution center in Landover for meat, produce, health and beauty, general merchandise and seafood. Semi-automated distribution center and warehouse in Jessup*
Merchandise	*National brands Super G brand Bakery, Meat, Produce, Health and Beauty Deli, Dairy, Frozen, Pet food*

Sustainable Competitive Advantage	Giant's Implementation
Customer Service	*Peapod delivery* *Health & nutrition information* *Wine guide* *Flu shots* *Catering* *Recipes online* *Picture center* *Kids' Corner*
Human Resources	*Employs over 27,000 full and part-time staffers* *Looking to hire the best people* *Competitive wages, training and benefits* *Career opportunities*