Retailing Strategy

Section I described retail management decisions; the different types of retailers, including how retailers use multiple selling channels—stores, the Internet, and catalogs—to reach their customers; and factors that affect consumers’ choices of retailers, channels, and merchandise. This broad overview of retailing provided the background information needed to develop and implement an effective retail strategy.

Section II discusses strategic decisions made by retailers.

Chapter 5 describes the development of a retail market strategy.

Chapter 6 examines the financial strategy associated with the market strategy.

Chapters 7 and 8 discuss the location strategy for retail outlets.

Chapter 9 looks at the firm’s organization and human resource strategy.

Chapter 10 examines systems used to control the flow of information and merchandise.

Chapter 11 details approaches that retailers take to manage relationships with their customers.

As outlined in Chapter 1, these decisions are strategic rather than tactical because they involve committing significant resources to developing long-term advantages over the competition in a target market segment.

Sections III and IV review the tactical decisions regarding merchandise and store management that serve to implement the retail strategy. These implementation or tactical decisions affect a retailer’s efficiency, but their impact is shorter term than that of the strategic decisions reviewed in Section II.
With annual sales approaching $23 billion, Publix Super Markets, Inc., is one of the 10 largest supermarket chains in the United States. We operate over 900 stores, primarily in Florida, but also have stores in Georgia, Alabama, South Carolina, and Tennessee.

My background began in operations, with my first job out of college being a production supervisor at Frito Lay. I also spent time in the software consulting industry prior to joining Publix in 1994. Since coming to Publix, I’ve spent time in a wide variety of business areas including Manufacturing, Distribution, Fresh Products, Engineering, and Strategic Planning. I also was Director of Fulfillment for PublixDirect, our online shopping and home delivery test.

As Director of Strategy Support, my primary responsibility is to support and facilitate the development and implementation of strategy at Publix. Each year, our various business areas are required to update their annual business plan. My department is responsible for assisting these business units through a rigorous process of strategy development and helping them to define the initiatives that will best achieve their desired goals. We also assist with implementation by providing project management support for these initiatives, and by measuring and reporting progress.

Another area of responsibility is to facilitate the development of our corporate business plan. I constantly monitor and evaluate the supermarket industry and gather information that helps to identify potential opportunities and threats facing Publix. I provide this information to our President, CEO, and CFO, and work with them to determine our best course of action.
The growing intensity of retail competition—due to the emergence of new competitors, formats, and technologies, as well as shifts in customer needs—is forcing retailers to devote more attention to long-term strategic planning. As the retail management decision-making process (discussed in Chapter 1) indicates, retailing strategy (Section II) is the bridge between understanding the world of retailing—that is, the analysis of the retail environment (Section I)—and the more tactical merchandise management and store operations activities (Sections III and IV) undertaken to implement the retail strategy. The retail strategy provides the direction retailers need to deal effectively with their environment, customers, and competitors.

In addition to supporting strategic planning and implementation, I am also responsible for the Process Improvement team (a group of 22 Industrial Engineers and Assistants), as well as our Continuous Quality Improvement programs.

At Publix, our strategy centers on customer service. We have a long tradition of providing premier service to our customers. We continually look for ways to improve this service, as well as ways to improve our operations so we can continue to provide the products and services our customers want at a good value.

Being part of the Strategy Support group at Publix has allowed me to be involved in many new and promising opportunities we are investigating. Publix is currently rolling out our “Pix” convenience stores and gas kiosks, and building several of our natural and organic formats called the “Greenwise Market.” We also continue to enhance the customer experience through Supply Chain automation and associate training programs. These are just a few of the exciting opportunities that we experience everyday. It’s an aspect of retail that I never knew existed prior to my coming to Publix.

The first part of this chapter defines the term retail strategy and discusses three important elements of retail strategy: the target market segment, retail format, and sustainable competitive advantage. Next, we outline approaches for building a sustainable competitive advantage. The chapter concludes with a discussion of the strategic retail planning process.

QUESTIONS

What is a retail strategy?
How can a retailer build a sustainable competitive advantage?
What steps do retailers go through to develop a strategy?
What different strategic growth opportunities can retailers pursue?
What retailers are best positioned to become global retailers?
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, or private brand strategy. The term is used so commonly that it appears that all retailing decisions are strategic decisions, but retail strategy isn’t just another expression for retail management.

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 segment(s) toward which the retailer plans to focus its resources and retail mix. A retail format describes the nature of the retailer’s operations—that is, its retail mix (type of merchandise and services offered, pricing policy, advertising and promotion program, approach to store design and visual merchandising, typical locations, and customer services)—that is designed to satisfy the needs of its target market. A sustainable competitive advantage is an advantage over the competition that is not easily copied and thus can be maintained over a long period of time. The following are a few examples of retail strategies.

• Steve & Barry’s. Steven Shore and Barry Prevor opened their first store near Philadelphia’s University of Pennsylvania in 1985. Initially, the chain sold university-logoed sportswear at low prices. Its 200 stores now have expanded to offering humorous t-shirts and basic clothing for men, women, and children. Nearly all of its merchandise is priced at less than $15, but the quality is surprisingly high. The Starbury brand of shoes (licensed from NBA player Stephon Marbury) appear on NBA courts, worn by professional basketball players. The key to its success is gaining aggressive incentives from mall owners, applying creative approaches to working with vendors, and relying on virtually no advertising.

• Chico’s. The chain’s 600 specialty stores sell fashionable apparel designed for women between 33 and 55 years of age. The company sells only its own private-label brands and is vertically integrated, handling everything from sourcing to designing to supervising merchandise, manufacturing, and delivery. Chico’s does not use a cookie-cutter approach to its stores, so its merchandise assortment is adjusted to fit local tastes. The retailer stocks three collections. The Traveler’s collection is its core assortment, whereas the other two collections are available in limited quantities and adapted from the latest trends. Chico’s 5 million loyalty club members get a 5 percent discount, notice of store sales, free shipping, catalog discounts, and other perks, and they constitute 78 percent of Chico’s sales. These shoppers spend more too—$110 per visit, compared with $70 for nonmembers. Chico’s delivers high-quality customer service and devotes considerable time and effort to training its sales associates to work hard to establish personal relationships with each of its customers.

• Curves. With more than 10,000 franchises in all 50 states and more than 30 countries, Curves has become the world’s top fitness center in terms of number of clubs. One in every four fitness clubs in the United States is a Curves. Whereas other clubs go after the prized 18- to 34-year-old demographic segment, Curves’s customers are aging baby boomers, typically living in small towns. This retailer’s fitness centers don’t have treadmills, saunas, locker rooms, mirrors, aerobics classes, or free weights. Members work out on eight to twelve hydraulic resistance machines, stopping between stations to walk or jog in place. The clubs’ standard routine finishes in 30 minutes and is designed...
to burn 500 calories. Club members usually pay $29 a month, far less than they would in conventional fitness clubs. Rather than attracting customers from other clubs, Curves generates customers who haven’t considered joining a fitness club before.6

- **Magazine Luiza.** Brazil’s third-largest nonfood retailer targets low-income consumers by selling consumer electronics and appliances on installment payment plans and offering affordable credit in a country with some of the world’s highest interest rates. The company requires customers to return to the store each month to make payments in person, enticing many customers to make new purchases upon seeing the appealing merchandise on sale. In a country where almost half the population does not have a checking account, the retailer also provides services—including personal loans and insurance policies—that would otherwise be out of reach to most customers. Even though 80 percent of its sales are paid for in installments, its default rate is 50 percent lower than that of other Brazilian retailers.7

Each of these retail strategies involves (1) selecting target market segment(s), (2) selecting a retail format (the elements in the retail mix), and (3) developing a sustainable competitive advantage that enables the retailer to reduce the level of competition it faces. Now let’s examine these central concepts of a retail strategy.

**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 do. The selection of a target market concentrates the retailer on a group of consumers whose needs it will attempt to satisfy; and the selection of a retail format outlines the retail mix to be used to satisfy the needs of those customers. Successful retailers satisfy the needs of customers in their target segment better than their competition does.

A **retail market** is a group of consumers with similar needs (a market segment) that a group of retailers can service using a similar retail format to satisfy them.8 Exhibit 5–1 illustrates a set of retail markets for women’s clothing and lists various retail formats in the left-hand column. Each format offers a different retail mix to its customers. Market segments are listed in the exhibit’s top row. As mentioned in Chapter 4, these segments could be defined in terms of the customers’ geographic location, demographics, lifestyle, buying situation, or benefits sought. In this exhibit, we divide the market into three fashion-related segments: conservative, or consumers who place little importance on fashion; traditional, who want classic styles; and fashion-forward, or those who want the latest fashions.
Each square of the matrix shown in Exhibit 5–1 describes a potential retail market in which retailers can compete. For example, Wal-Mart and Kmart stores in the same geographic area compete with each other using a discount store format to target conservative customers, whereas Bloomingdale’s and Neiman Marcus compete against each other using a department store format that appeals to the fashion-forward segment. Each fashion segment—conservative, traditional, and fashion-forward—is likely to shop multiple formats. For instance, a fashion-forward customer might shop Urban Outfitters for casual wear and Neiman Marcus for business attire.

The women’s clothing market in Exhibit 5–1 is just one of several representations that we could have used. Retail formats might be expanded to include outlet stores and category specialists. Rather than being segmented by fashion orientation, the market could be segmented using the other approaches described in Chapter 4. Although Exhibit 5–1 isn’t the only way to describe the women’s retail clothing market, it does illustrate how retail markets may be defined in terms of retail format and customer market segments and portrays a retail market in each square.

Exhibit 5–1’s matrix also describes the battlefields on which women’s apparel retailers compete. The position in each battlefield (cell in the matrix) indicates the first two elements of a retailer’s strategy: the fashion segment (the x-axis) and the retail format (the y-axis).

Consider the situation confronting Target as it refines its retail strategy for the women’s clothing market. Should Target compete in all 15 retail markets shown in Exhibit 5–1, or should it focus on a limited set of markets? If Target
decides to focus on a limited set of markets, which should it pursue? Target’s answers to these questions define its retail strategy and indicate how it should focus its resources.

BUILDING A SUSTAINABLE COMPETITIVE ADVANTAGE

The final element in a retail strategy is the retailer’s approach to building a sustainable competitive advantage. Any business activity that a retailer engages in can be the basis for a competitive advantage, but some advantages are sustainable over a long period of time, whereas others can be duplicated by competitors almost immediately. For example, it would be hard for Seattle’s Best Coffee to establish a long-term advantage over Starbucks by simply offering the same coffee specialties at lower prices. If Seattle’s Best’s lower prices were successful in attracting customers, Starbucks would know what Seattle’s Best had done and quickly match the price reduction. Similarly, it’s hard for retailers to develop a long-term advantage by offering broader or deeper merchandise assortments. If broader and deeper assortments attract a lot of customers, competitors will simply go out and buy the same merchandise for their stores.

Establishing a competitive advantage means that the retailer, in effect, builds a wall around its position in a retail market. When the wall is high, it will be hard for competitors outside the wall (i.e., retailers operating in other markets or entrepreneurs) to enter the market and compete for the retailer’s target customers.

Over time, all advantages erode due to competitive forces, but by building high, thick walls, retailers can sustain their advantage, minimize competitive pressures, and boost profits for a longer time. Thus, establishing a sustainable competitive advantage is the key to positive long-term financial performance.

Seven important opportunities for retailers to develop sustainable competitive advantages are as follows: (1) customer loyalty, (2) location, (3) human resource management, (4) distribution and information systems, (5) unique merchandise, (6) vendor relations, and (7) customer service. Exhibit 5–2 indicates which aspects of these sources of competitive advantage are more and less sustainable. Let’s look at each of these approaches.

EXHIBIT 5–2
Methods of Developing Sustainable Competitive Advantage

<table>
<thead>
<tr>
<th>Sources of Advantage</th>
<th>SUSTAINABILITY OF ADVANTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer loyalty (Chapters 11 and 16)</td>
<td>Less Sustainable: Habitual repeat purchasing; repeat purchases because of limited competition in the local area</td>
</tr>
<tr>
<td></td>
<td>More Sustainable: Building a brand image with an emotional connection with customers; using databases to develop and utilize a deeper understanding of customers</td>
</tr>
<tr>
<td>Location (Chapters 7 and 8)</td>
<td>Less Sustainable: Convenient locations</td>
</tr>
<tr>
<td>Human resource management (Chapter 9)</td>
<td>More Sustainable: Committed, knowledgeable employees</td>
</tr>
<tr>
<td>Distribution and information systems (Chapter 10)</td>
<td>More Sustainable: Bigger warehouses; automated warehouses</td>
</tr>
<tr>
<td></td>
<td>Less Sustainable: Shared systems with vendors</td>
</tr>
<tr>
<td>Unique merchandise (Chapters 12 to 14)</td>
<td>More Sustainable: Exclusive merchandise</td>
</tr>
<tr>
<td></td>
<td>Less Sustainable: More merchandise; greater assortment; lower price; higher advertising budgets; more sales promotions</td>
</tr>
<tr>
<td>Vendor relations (Chapter 14)</td>
<td>More Sustainable: Coordination of procurement efforts; ability to get scarce merchandise</td>
</tr>
<tr>
<td></td>
<td>Less Sustainable: Repeat purchases from vendor due to limited alternatives</td>
</tr>
<tr>
<td>Customer service (Chapter 19)</td>
<td>More Sustainable: Knowledgeable and helpful salespeople</td>
</tr>
<tr>
<td></td>
<td>Less Sustainable: Hours of operation</td>
</tr>
</tbody>
</table>
SECTION II Retailing Strategy

Customer Loyalty

Customer loyalty means that customers are committed to buying merchandise and services from a particular retailer. Other bases for sustainable competitive advantage discussed in this section help attract and maintain loyal customers; for instance, having dedicated employees, unique merchandise, and superior customer service all help solidify a loyal customer base. But having loyal customers is, in and of itself, an important method of sustaining an advantage over competitors.

Loyalty is more than simply liking one retailer over another. Loyalty means that customers will be reluctant to patronize competitive retailers. For example, loyal customers will continue to have their car serviced at Jiffy Lube, even if a competitor opens a store nearby and provides slightly lower prices. Some ways that retailers build loyalty are by (1) developing a strong brand image for the retailer or its private label brands, (2) developing clear and precise positioning strategies, and (3) creating an attachment with customers through loyalty programs.

Retail Branding

Retailers use brands to build loyalty in much the same way that manufacturers do. In retailing, however, a retailer may put its name on the merchandise, such as Hot Topic, or use a name that is sold exclusively at that retailer, such as Kenmore appliances at Sears. These store brands are also known as private-label brands and are discussed in Chapter 14.

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. People know, for instance, that when they buy the L.L. Bean brand, they can be assured that the products are “guaranteed to give 100% satisfaction in every way. Return anything purchased from us at any time if it proves otherwise. We do not want you to have anything from L.L. Bean that is not completely satisfactory. [We] do not consider a sale complete until goods are worn out and [the] customer [is] still satisfied.” Retail brands also facilitate loyalty because they stand for a predictable level of quality that customers feel comfortable with and often seek. Retail branding is discussed in Chapter 16. A strong retail brand also becomes part of a retailer’s positioning strategy, the topic discussed next.

Positioning

A retailer builds customer loyalty by developing a clear, distinctive image of its retail offering and consistently reinforcing that image through its merchandise and service. Positioning involves the design and implementation of a retail mix to create an image of the retailer in the customer’s mind relative to its competitors.

Furthermore, positioning emphasizes that the image in the customer’s mind (not the retail manager’s mind) is critical. Thus, the retailer needs to research what its image is and make sure that it is consistent with what customers in its target market want. A perceptual map is frequently used to represent the customer’s held image and preferences for retailers.

Exhibit 5–3 offers a hypothetical perceptual map of retailers selling women’s clothing in the Washington, DC, area. The two dimensions in this map, fashion/style and service, represent the two primary characteristics that consumers in this example use in forming their impressions of retail stores. Perceptual maps are developed so that the distance between two retailers’ positions on the map indicates how similar the stores appear to consumers. For example, Neiman Marcus and Saks Fifth Avenue are very close to each other on the map because consumers in this illustration see them as offering similar services and fashion. In contrast, Nordstrom and Marshalls are far apart, indicating consumers think they’re quite different. Note that stores close to each other compete vigorously because consumers feel they provide similar benefits.

According to this example, Macy’s has an image of offering fashionable women’s clothing with good service. T. J. Maxx offers a similar level of fashionable clothing with less service. Sears is viewed as a retailer offering women’s clothing that is not fashionable with relatively limited service.
The ideal points (marked by red dots on the map) indicate the characteristics of an ideal retailer for consumers in different market segments. For example, consumers in segment 3 prefer a retailer that offers high-fashion merchandise with low service, whereas consumers in segment 1 want more traditional apparel and aren’t concerned about service. The ideal points are located so that the distance between a retailer’s position (marked with a blue “x”) and the ideal point indicates how consumers in the segment evaluate that retailer.

Retailers that are closer to an ideal point are evaluated more favorably by the consumers in the segment than are retailers located farther away. Thus, consumers in segment 6 prefer Forever 21 and Bebe to Neiman Marcus because these retailers are more fashion forward, and their target customers do not require such high service levels.

**Loyalty Programs** Loyalty programs are part of an overall customer relationship management (CRM) program, examined in Chapter 11. These programs are prevalent in retailing, from department stores to the local pizza shop.

Customer loyalty programs work hand-in-hand with CRM. Members of loyalty programs are identified when they buy because they use some type of loyalty card. Their purchase information then is stored in a huge database known as a data warehouse. From this data warehouse, analysts determine what types of merchandise and services certain groups of customers are buying. Using this information, retailers can tailor their offerings to better meet the needs of their loyal customers.
For instance, by analyzing its database, Safeway might identify those customers who buy expensive wines and gourmet food. Having identified these customers, Safeway could develop a special promotion focusing on preparing a gourmet meal and offer recipes, a list of ingredients, and coupons for some of the products. Retailing View 5.1 describes how Mitchells/Richards uses customer information to build store loyalty through customer service and by targeting its promotional activities to improve customer satisfaction.

**Location**

The classic response to the question, “What are the three most important things in retailing?” is “location, location, location.” Location is the critical factor in consumers’ selection of a store. For example, most people shop at the supermarket closest to where they live. A competitive advantage based on location is sustainable because it is not easily duplicated. Once Walgreens has put a store at the best location at an intersection, CVS is relegated to the second-best location.

Starbucks has developed a strong competitive advantage with its location selection. It conquers one city at a time, saturating a major market before entering...
a new market. For example, there were more than 100 Starbucks outlets in the Seattle area before the company expanded to a new region. Starbucks will frequently open several stores close to one another. It has two stores on two corners of the intersection of Robson and Thurlow in Vancouver. Starbucks has such a high density of stores that it makes it very difficult for a competitor to enter a market and find good locations. Approaches for evaluating and selecting locations are discussed in Chapters 7 and 8.

**Human Resource Management**

Retailing is a labor-intensive business, in which employees play a major role providing services for customers and building customer loyalty. Knowledgeable and skilled employees committed to the retailer’s objectives are critical assets that support the success of companies such as Southwest Airlines, Whole Foods, and The Container Store.14

JCPenney chairman and CEO Mike Ullman believes in the power of the employee for building a sustainable competitive advantage.15 As he notes, “The associates are the first customers we sell. If it doesn’t ring true to them, it’s impossible to communicate and inspire the customer.” To build involvement and commitment among its employees, Penney has dropped many of the traditional pretenses that define an old-style hierarchical organization. For instance, at the Plano, Texas, corporate headquarters, all employees are on a first-name basis, workweeks are flexible, and leadership workshops help build the executive team for the future.

Recruiting and retaining great employees does not come easy. Chapter 9 examines how retailers can gain a sustainable competitive advantage by developing programs to motivate and coordinate employee efforts, providing appropriate incentives, fostering a strong and positive organizational culture and environment, and managing diversity.

**Distribution and Information Systems**

All retailers strive to reduce operating costs—the costs associated with running the business—and make sure the right merchandise is available when and where customers want it. The use of sophisticated distribution and information systems offers an opportunity for retailers to achieve these efficiencies.16 For instance, merchandise sales information flows seamlessly from Wal-Mart to its vendors, like Procter & Gamble, to facilitate quick and efficient merchandise replenishment that avoids costly stockouts and reduces inventory levels. Wal-Mart has the largest data warehouse in the world, enabling the company to fine-tune its merchandise assortments on a store-by-store, category-by-category basis. Wal-Mart’s distribution and information systems have enabled this retailer to become the lowest cost provider of merchandise in every market in which it competes. This component of competitive advantage is discussed in Chapter 10.

**Unique Merchandise**

It is difficult for retailers to develop a competitive advantage through merchandise because most competitors can purchase and sell the same popular national brands. But many retailers realize a sustainable competitive advantage by developing private-label brands (also called store brands), which are products developed and marketed by a retailer and available only from that retailer.17
For example, three of Sears powerful private-label brands are Kenmore, Die Hard, and Craftsman. Each of these brands has strong loyalty among a significant group of consumers and thus generates considerable store traffic. The quality image of these brands also makes a significant contribution to the image of Sears and the value of Sears Holding Company. Issues pertaining to the development of private label brand merchandise are discussed in Chapter 14.

Vendor Relations

By developing strong relations with vendors, retailers may gain exclusive rights to (1) sell merchandise in a specific region, (2) obtain special terms of purchase that are not available to competitors that lack such relationships, or (3) receive popular 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. For example, IKEA, the Swedish-based furniture retailer, works very closely with its suppliers to design low cost furniture and keep inventory to a minimum so it can offer its furniture at low prices. Chapter 14 examines how retailers work with their vendors to build mutually beneficial, long-term relationships.

Customer Service

Retailers also can build a sustainable competitive advantage by offering excellent customer service. Offering good service consistently is difficult because customer service is provided by retail employees, and humans are less consistent than machines. Have you ever received less than perfect service from a salesperson or customer service representative? It is possible that the employee wasn’t trained properly, that she didn’t like her job, or that he was either inept or just plain rude. It is also possible that you were the 497th customer the salesperson interacted with that day, and she was at the end of her shift. Retailers that offer good customer service instill its importance in their employees over a long period of time through coaching and training. In this way, customer service becomes part of the retailer’s organizational culture, a topic examined in Chapter 9.

It takes considerable time and effort to build a tradition and reputation for customer service, but good service is a valuable strategic asset. Once a retailer has earned a service reputation, it can sustain this advantage for a long time because it’s hard for a competitor to develop a comparable reputation. Chapter 19 discusses how retailers develop a service advantage.

Multiple Sources of Advantage

To build a sustainable competitive advantage, retailers typically don’t rely on a single approach, such as low cost or excellent service. Instead, they need multiple approaches to build as high a wall around their position as possible. For example, McDonald’s success is based on providing customers with a good value that meets their expectations, having good customer service, possessing a strong brand name, and having great locations. By pursuing all of these strategies concurrently, McDonald’s has developed a strong competitive position in the quick service restaurant market.

McDonald’s has always positioned itself as providing a good value—customers get a lot for not much money. Its customers don’t have extraordinary expectations;
they don’t expect a meal prepared to their specific tastes. But customers do expect and get hot, fresh food that is reasonably priced. 

McDonald’s customers also don’t expect friendly table service with linen table cloths and sterling silverware. Their service expectations, which are typically met, are simple. By developing a system for producing its food and using extensive training for its store employees, McDonald’s reduces customers’ waiting time.

Furthermore, McDonald’s has a strong brand name with very high levels of awareness around the world. When most people think of fast food, they think of McDonald’s. The brand also has a number of favorable brand associations, such as Ronald McDonald, fast, clean, and french fries.

Finally, McDonald’s has a large number of great locations, which is very important for convenience products such as fast food. Given its market power, it has been successful in finding and opening stores in prime retail locations. In every great city in which it operates around the world, McDonald’s has outstanding locations.

By developing these unique capabilities in a number of areas, McDonald’s has built a high wall around its position as a service retailer, using a fast-food format directed toward families with young children. Each of the retail strategies outlined at the beginning of the chapter involves multiple sources of advantage. For example, Chico’s has developed a strong competitive position through its unique merchandise, strong brand name, high-quality service provided by committed employees, and effective loyalty program. Retailing View 5.2 describes The Container Store—Selling Products that Make Life Simpler.

Customers go to The Container Store to solve a problem. For example, when approached by a salesperson, a customer may say, “My wife loves romance novels. She’s got them scattered all over the house. I need something to keep them in.” And the salesperson helps the customer solve the problem, or challenge, as the company likes to call them.

The Container Store sells products to help people organize their lives. Multipurpose shelving and garment bags are available to organize closets. Portable file cabinets and magazine holders create order in home offices. Backpacks, modular shelving, and CD holders can make dorm rooms less cluttered. Recipe holders, bottles, jars, and recycling bins bring harmony to kitchens.

The Container Store also owns Elfa International, one of its main suppliers of shelving and storage units. Although Elfa is sold throughout the world, The Container Store decided in 2007 to be the exclusive dealer of it in North America. Elfa products are compatible, interlocking items that can be built to the desired size and shape needed.

Its more than 40 stores range in size from 22,000 to 30,000 square feet and showcase more than 10,000 innovative products. The stores are divided into lifestyle sections marked with brightly colored banners, such as Closet, Kitchen, Office, and Laundry. Wherever you look in the store, there’s always someone in a blue apron ready to help solve everything from the tiniest of storage problems to the most intimidating organizational challenges. The annual sales per square foot for this retailer average approximately $400. Although storage items and many other similar products are available at other retailers such as Linens ‘N Things and Bed Bath & Beyond, few competitors offer The Container Store’s customer service. The Container Store spends considerable time educating sales associates about its unique merchandise that simplifies its customers’ lives.

Over the years, the company has developed strong vendor relations. Most of its vendors’ primary focus has been to manufacture products for industrial use. Yet over time, the company has worked closely with its vendors to develop products that are appropriate for the home.

Container Store, a retail chain that built a sustainable competitive advantage through unique merchandise, excellent customer service, and strong customer and vendor relations.

GROWTH STRATEGIES

Four types of growth opportunities that retailers may pursue—market penetration, market expansion, retail format development, and diversification—are shown in Exhibit 5–4. The vertical axis indicates the synergies between the retailer’s present markets and the growth opportunity—whether the opportunity involves markets the retailer is presently pursuing or new markets. The horizontal axis indicates the synergies between the retailer’s present retail mix and the retail mix of the growth opportunity—whether the opportunity exploits the retailer’s skills in operating its present format or requires a new set of skills to operate.

Market Penetration

A market penetration growth opportunity involves realizing growth by directing efforts toward existing customers using the retailer’s present retailing format. These opportunities involve either attracting consumers from the current target market who don’t patronize the retailer currently or devising approaches that get current customers to visit the retailer more often or buy more merchandise on each visit. For example, many retailers allow products bought through their Web sites to be picked up at their stores. This initiative has been successful not only in bringing customers into the stores more often but also in encouraging them to purchase more items while in the store.

Market penetration approaches include opening more stores in the target market and keeping existing stores open for longer hours. Other approaches involve displaying merchandise to increase impulse purchases and training salespeople to cross-sell. Cross-selling means that sales associates in one department attempt to sell complementary merchandise from other departments to their customers. For example, a sales associate who has just sold a DVD player to a customer will take the customer to the accessories department to sell special cables to improve the performance of the player.
Market Expansion

A market expansion growth opportunity involves using the existing retail format in new market segments. For example, Dunkin’ Donuts gradually has been opening new stores outside its northeastern U.S. stronghold. The plan calls for Dunkin’ eventually to increase the number of its U.S. outlets from the current level of more than 5,300 (out of a total of 7,000-plus stores) to 15,000 while also moving into more foreign countries, including China. Abercrombie & Fitch’s (A&F) primary target market is college students, not high-schoolers. Because college-aged people don’t particularly like to hang out with teens, A&F opened a new, lower-priced chain called Hollister Co. Although the merchandise and ambience are slightly different than A&F, the retail format is essentially the same.

Retail Format Development

A retail format development growth opportunity is an opportunity in which a retailer develops a new retail format—a format with a different retail mix—for the same target market. Multichannel retailing is an example of retail format development, because a bricks-and-mortar retailer is offering an Internet channel as a new format, in addition to its existing channel.

The U.K.-based retailer Tesco has employed a retail format development growth strategy by operating several different food store formats that all cater to essentially the same target markets. The smallest is Tesco Express, up to 3,000 square feet. These stores are located close to where customers live and work. Tesco Metro stores are 7,000–15,000 square feet, bring convenience to city center locations, and specialize in offering a wide range of ready-to-eat-meals. Tesco Superstores (up to 50,000 square feet), are the oldest format. In recent years, the company has added nonfood products, such as DVDs and books, to improve customer satisfaction. Finally, Tesco Extra stores (more than 60,000 square feet) are designed to be a one-stop destination, with the widest range of food and nonfood products, from housewares and clothing to garden furniture.

Diversification

A diversification growth opportunity is one in which a retailer operates a new retail format directed toward a market segment that’s not currently served by the retailer. Diversification opportunities are either related or unrelated.

Related versus Unrelated Diversification

In a related diversification growth opportunity, the retailer’s present target market or retail format shares something in common with the new opportunity. This commonality might entail purchasing from the same vendors, operating in similar locations, using the same distribution or management information system, or advertising in the same newspapers to similar target markets. In contrast, an unrelated diversification lacks any commonality between the present business and the new business.

Through acquisition, Home Depot built a wholesale building supply business, called HD Supply, that generated over $3 billion annual sales. Management felt that this growth opportunity would be synergistic with the firm’s retail business, because its stores were selling similar merchandise to contractors. Thus, Home Depot viewed this growth opportunity as a related diversification, because customers (i.e., contractors) would be similar, and the new market of large contractors could be serviced using the same warehouse-like format. In addition, Home Depot would realize cost savings by placing larger orders with vendors because it would be selling to both retail and wholesale businesses.

In hindsight though, the HD Supply actually was an unrelated diversification. HD Supply sold primarily pipes, lumber, and concrete—products with limited...

sales in retail stores. Selling these supplies for large construction jobs often involved competitive bidding that reduced margins. So Home Depot sold this unrelated diversification to concentrate on its retail/small contractor business.

**Vertical Integration** Vertical integration describes diversification by retailers into wholesaling or manufacturing. For example, some retailers go beyond designing their private-label merchandise to owning factories that manufacture the merchandise. When retailers integrate by manufacturing products, they are making risky investments because the requisite skills to make products are different from those associated with retailing them. In addition, retailers and manufacturers have different customers; the immediate customers for a manufacturer’s merchandise are retailers, whereas a retailer’s customers are consumers. Thus, a manufacturer’s marketing activities are very different from those of a retailer. 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.

**Strategic Opportunities and Competitive Advantage**

Typically, retailers have the greatest competitive advantage when they engage 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. Those retailers that successfully expand globally are able to translate what they do best—their core competencies—to a new culture and market.

A retail format development opportunity builds on the retailer’s reputation and success with its present customers. Even if a retailer doesn’t have experience and skills in operating the new format, it hopes to attract its loyal customers to it. For example, as discussed in Chapter 3, some retailers have successfully developed multichannel strategies by seamlessly integrating stores, the Internet, and catalogs to provide extra convenience and multiple opportunities for their current customers to shop. Retailers have the least opportunity to exploit a competitive advantage when they pursue diversification opportunities.

**GLOBAL GROWTH OPPORTUNITIES**

International expansion is a market expansion growth opportunity that many retailers find attractive. Of the 50 largest global retailers, 38 operate in more than one country. But international expansion can be risky, because retailers must deal with different government regulations, cultural traditions, supply chain considerations, and languages. We first discuss the types of retailers that successfully compete globally, followed by a look at some of the pitfalls of global expansion. Then we examine the key success factors for global expansion and, finally, evaluate the strategies for entering a nondomestic market.

**Who Is Successful and Who Isn’t?**

Retailers with an offering that has universal appeal, based on strong brand images, distinctive merchandise or low cost, are the most successful at exploiting global markets. For example, some of the most successful global retailers are specialty store retailers with strong brand images and/or unique merchandise, such as Starbucks, McDonald’s, Zara, and H&M; those that offer deep assortments and low prices, which appeal to consumers in different cultures; or discount and food
retailers with low prices, such as Wal-Mart, Carrefour, Royal Ahold, and Metro AG. Retailing View 5.3 discusses some of the successes and problems IKEA has encountered on its way to being a global retailer.

Category specialists and supercenter retailers may be particularly well suited to succeed globally because of their operating efficiencies. First, these retailers are leaders in their use of technology to manage inventories, control global logistical systems, and tailor merchandise assortments to local needs. Second, retailers like Wal-Mart and Carrefour enjoy scale economies for buying merchandise globally. Third, despite idiosyncrasies in the global environment, category specialists and

Many consumers need to buy furniture and have sophisticated taste but either cannot or do not want to spend lots of money. These consumers don’t necessarily want or need furniture that will last forever. Operating 254 stores in 35 countries, IKEA offers unique, well-designed, functional furniture at low prices displayed in realistic room settings.

At IKEA, customers are encouraged to get actively involved in the shopping experience by sitting on the sofas and opening and closing drawers. Price and product information is clearly marked on large, easy-to-read tags, making it easier for customers to serve themselves. The guiding philosophy is: “You do your part. We do our part. Together, we save money.”

The stores are designed to put the customer on a logical buying path. One starts in the living rooms, then moves to bedrooms, closets/bureaus, then kitchens and bathrooms. After the furniture has been chosen for the rooms, the accessories are bought: lighting, dinnerware, art, rugs, and so on. To complete the shopping experience, customers pick up their own furniture and carry the pieces to the register. Self-service items include small tables, chairs, and other manageable pieces. The larger pieces that are too large are brought out from another warehouse. The unassembled furniture is packed flat, suitable for tying to the top of cars. For those customers that do not want to be as involved, IKEA offers delivery service and a recommendation for third-party assembly providers. Couple all this activity with the long checkout lines, and an IKEA shopping trip can run between four to six hours. Yet IKEA customers see tremendous value in the offering and low prices, so they are happy to make the self-service trade-off.

As a bonus to its customers, IKEA maintains the Swedish-style food offered in its cafeterias. In the onsite restaurant, customers can take a shopping break and have breakfast, lunch, dinner, dessert, or a snack. The food is low priced, and customers can even buy some delicacies, such as Swedish sausages, to take home.

When entering the United States in 1987, IKEA had to make some functional changes to its products. For example, Scandinavian beds were the wrong size for American bed linens, Scandinavian-styled bookshelves were too small to hold a television for Americans who wanted shelving for an entertainment system, its glasses were deemed too small for the super-sized thirsts of Americans, and the dining room tables weren’t big enough to fit a turkey in the center on Thanksgiving. But IKEA quickly adapted its products to meet U.S. market needs.

supercenter retailers have developed unique systems and standardized formats that facilitate control over multiple stores. Fourth, at one time, U.S.-based retailers believed that consumers outside the United States, who were used to high levels of personalized service, would not embrace the self-service concept employed by category killers and supercenter retailers. However, the experience of chains such as Carrefour (France) and ALDI (Germany) has shown that consumers around the globe are willing to forgo service for lower prices.14

Some U.S. retailers have a competitive advantage in global markets because American culture is emulated in many countries, particularly among young people. Due to rising prosperity and the rapidly increasing access to cable TV that features American programming, fashion trends in the United States are spreading to young people in emerging countries. The global MTV generation prefers Coke to tea, athletic shoes to sandals, Chicken McNuggets to rice, and credit cards to cash. China’s major cities have sprouted American stores and restaurants, including KFC, Pizza Hut, and McDonald’s. Shanghai and Beijing have 57 and 95 Starbucks stores, respectively, even though coffee had never been the drink of choice until Starbucks came to town. But these Chinese urban dwellers go there to impress a friend or because it’s a symbol of a new kind of lifestyle. Although Western products and stores have gained a reputation for high quality and good service in China, in some ways, it is the American culture that many Chinese consumers want.

**Keys to Success**

Four characteristics of retailers that have successfully exploited international growth opportunities are (1) a globally sustainable competitive advantage, (2) adaptability, (3) global culture, and (4) financial resources.35 A hypothetical evaluation of international growth opportunities appears in the appendix to this chapter.

**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. Some core competitive advantages for global retailers are shown in the following table:

<table>
<thead>
<tr>
<th>Core Advantage</th>
<th>Global Retailer Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-cost, efficient operations</td>
<td>Wal-Mart, Carrefour, ALDI</td>
</tr>
<tr>
<td>Strong private-label brands</td>
<td>Starbucks, KFC</td>
</tr>
<tr>
<td>Fashion reputation</td>
<td>H&amp;M, Zara</td>
</tr>
<tr>
<td>Category dominance</td>
<td>Office Depot, IKEA, Toys ‘R Us</td>
</tr>
</tbody>
</table>

Thus, Wal-Mart, Carrefour, and ALDI are successful in international markets in which price plays an important role in consumer decision making and a distribution infrastructure is available to enable these firms to exploit their logistical capabilities. In contrast, H&M and Zara are more successful in international markets that value lower-priced, fashionable merchandise.

**Adaptability** Although successful global retailers build on their core competencies, they also recognize cultural differences and adapt their core strategy to the needs of local markets.36 Color preferences, the preferred cut of apparel, and sizes differ across cultures. For example, in China, white is the color of mourning, and brides wear red dresses. Food probably has the greatest diversity of tastes around the world. Carrefour is an expert at understanding and integrating itself in local regions, such as its early realization that the merchandising of fish differs for each local market. In San Francisco, fish is dead and filleted; in France, the fish is
dead but whole on ice with the head still intact; and in China, fish is sold live. However, consumers in the middle and western parts of China have more confidence in frozen fish, because they are so far from the ocean.37

Selling seasons also vary across countries. In the United States, many stores experience a sales increase in August, when families stock up on back-to-school supplies and apparel; however, this month is one of the slowest sales periods in Europe, because most people are on vacation. Back-to-school season in Japan occurs in April.

Store designs and layouts often need to be adjusted in different parts of the world. In the United States, for instance, discount stores are usually quite large and on one level. In other parts of the world, such as Europe and parts of Asia, where space is at a premium, stores must be designed to fit a smaller space and are often housed in multiple levels. In some cultures, social norms dictate that men’s and women’s clothing cannot be displayed next to each other.

Government regulations and cultural values can also affect store operations. Some differences, such as holidays, hours of operation, and regulations governing part-time employees and terminations, are easy to identify. Other factors require a deeper understanding. For example, Latin American culture is very family oriented, so traditional U.S. work schedules would need to be adjusted so that Latin American employees could have more time with their families. Boots, a U.K. drugstore chain, has the checkout clerks in its Japanese stores standing up because it discovered that Japanese shoppers found it offensive to pay money to a seated clerk, but retailers have to provide seating for checkout clerks in Germany. Retailers in Germany also must recycle packaging materials sold in their stores. Also in Germany, seasonal sales can be held only during specific weeks and apply only to specific product categories, and the amount of the discounts are limited.

Starbucks has been pleasantly surprised at how quickly consumers around the world have accepted the products it sells in the United States. In terms of assortment, there isn’t great variation from country to country. Outside the United States, food is a bigger part of business—much more important in China, Japan, and the United Kingdom than it is in the United States. Frappuccino-type products, however, are popular everywhere, though Starbucks has developed some unique drinks for different markets. For example, the green tea Frappuccino, sold only in Taiwan and Japan, is the best selling Frappuccino in those countries, and a strawberries-and-cream Frappuccino was developed expressly for the United Kingdom.38

Global Culture To be global, retailers must think globally. It is not sufficient to transplant a home-country culture and infrastructure into another country. In this regard, Carrefour is truly global. In the early years of its international expansion, it started in each country slowly, which reduced the company’s ethnocentrism. Further enriching its global perspective, Carrefour has always encouraged the rapid development of local management and retains few expatriates in its overseas operations. Carrefour’s management ranks are truly international. One is just as likely to run across a Portuguese regional manager in Hong Kong as a French or Chinese one. Finally, Carrefour discourages the classic overseas “tour of duty” mentality often found in U.S. firms. International assignments are important in themselves, not just as stepping stones to ultimate career advancement back in France. The globalization of Carrefour’s culture is perhaps most evident in the speed with which ideas flow throughout the organization. A global management structure of regional “committees,” which meet regularly, advances the awareness and implementation of global best practices. The proof of Carrefour’s global commitment lies in the numbers: It has had more than 30 years of international experience in 30 countries, both developed and developing.39
Financial Resources  Expansion into international markets requires a long-term commitment and considerable upfront planning. Retailers find it very difficult to generate short-term profits when they make the transition to global retailing. Although firms like Wal-Mart, Carrefour, Office Depot, and Costco often initially have difficulty achieving success in new global markets, these large firms generally are in a strong financial position and therefore have the ability to keep investing in projects long enough to become successful.

Evaluating Global Growth Opportunities

In their efforts to grow, many retailers have sought opportunities to open stores in other countries. However, some countries represent better opportunities than others. Exhibit 5–5 shows the top 20 countries ranked by overall opportunity. These rankings are based on a weighted score according to their growth (55 percent), risk (25 percent), and market size (20 percent).

China, India, Japan, Australia, and Malaysia—all Asia-Pacific countries—are in the top 10. Following the lifting of international restrictions on foreign investments international food retailers (Auchan, Carrefour, Ito-Yakado, Metro, Tesco, and Wal-Mart) have already entered China. Although much of this retail development has been in the largest cities of Shanghai and Beijing, international retailers are now moving into interior cities. Doing business in China is still a challenge, however. Operating costs are increasing, managerial talent is becoming more difficult to find and retain, and an underdeveloped and inefficient supply chain predominates.

India is an attractive market for retailers because it has a population of over 1 billion, solid economic growth, rising affluent urban middle-class, and it has rescinded some restrictions on foreign investment. The challenge facing global retailers in India is that the majority of the population, especially in rural areas, still prefers small, family-owned shops. In addition, despite some loosening of the

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**EXHIBIT 5–5**
Global Retail Opportunity Rankings

<table>
<thead>
<tr>
<th>2006 Ranking</th>
<th>Country</th>
<th>Index*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>76</td>
</tr>
<tr>
<td>2</td>
<td>United States</td>
<td>63</td>
</tr>
<tr>
<td>3</td>
<td>India</td>
<td>61</td>
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<tr>
<td>4</td>
<td>Russia</td>
<td>59</td>
</tr>
<tr>
<td>5</td>
<td>United Kingdom</td>
<td>57</td>
</tr>
<tr>
<td>6</td>
<td>Malaysia</td>
<td>48</td>
</tr>
<tr>
<td>7</td>
<td>Japan</td>
<td>45</td>
</tr>
<tr>
<td>8</td>
<td>Australia</td>
<td>45</td>
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<tr>
<td>9</td>
<td>Canada</td>
<td>44</td>
</tr>
<tr>
<td>10</td>
<td>Spain</td>
<td>41</td>
</tr>
<tr>
<td>11</td>
<td>Philippines</td>
<td>40</td>
</tr>
<tr>
<td>12</td>
<td>Turkey</td>
<td>40</td>
</tr>
<tr>
<td>13</td>
<td>South Africa</td>
<td>40</td>
</tr>
<tr>
<td>14</td>
<td>Germany</td>
<td>40</td>
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<tr>
<td>15</td>
<td>France</td>
<td>39</td>
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<tr>
<td>16</td>
<td>Taiwan</td>
<td>39</td>
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<tr>
<td>17</td>
<td>Vietnam</td>
<td>38</td>
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<tr>
<td>18</td>
<td>Thailand</td>
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<tr>
<td>19</td>
<td>Netherlands</td>
<td>36</td>
</tr>
<tr>
<td>20</td>
<td>Sweden</td>
<td>35</td>
</tr>
</tbody>
</table>

*Weighted index.


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**REFACT**
China sells more washing machines and television sets than the United States, while Indians buy more refrigerators and televisions than Germans.

**REFACT**
India’s compounded annual population growth rate is expected to be 1.12 percent between now and 2020—more than double the forecast for China for the same period. If these rates continue, India will have more people than China by 2035.
limitations, India restricts foreign investment, so the majority of ownership still must reside with Indian nationals.

Although Russia and the United Kingdom are highly ranked, other European countries have slipped in the rankings due to their relatively slow growth. Russia in particular has strong growth and consumer demand, coupled with falling inflation. Like India though, except in big cities like Moscow and St. Petersburg, smaller, family-owned retailers still account for about 86 percent of retail sales. Doing business in Russia can be challenging due to its poor transportation infrastructure, bureaucracy, and corruption.

The rankings for Latin and South America and Africa are mixed. Brazil, Argentina, and Mexico have the highest rankings in South and Latin America, whereas South Africa shows the strongest opportunity for retailers in Africa. Yet business risk remains high in many countries in these parts of the world.

The three opportunity ranking dimensions—growth, risk, and market size—are used to portray the top 30 countries graphically in Exhibit 5–6. The horizontal axis represents growth, the vertical axis represents risk, and the size of the circle represents market size. The United States, United Kingdom, Taiwan, and Malaysia fall into the “Best Opportunity” quadrant (upper right). Australia and Canada are on the fringe of this quadrant. China, India, and Russia dominate the lower-right
quadrant because they have high growth but relatively high risk. Although most of the Western European countries remain stable, their growth is stagnant, putting them in the upper-left quadrant. The appendix to this chapter describes a process for evaluating growth opportunities.

Moving into global markets requires all the same success factors as starting any business—a good strategy that is sustainable, a strong financial position, and a little luck. But global expansions require a lot more. First, firms must act like they are local and understand their customers’ needs. For example, France-based Carrefour and U.K.-based Tesco makes sure that more than 90 percent of the merchandise they sell is produced in the country in which it is sold. Second, retailers must understand and act appropriately in response to the subtle nuances between markets and countries. For instance, Spanish and French retailers work under government-controlled operating hours and must mind policies prohibiting mid-season sales. Average rental space in the United Kingdom is more than twice as much as that in Spain. Spain also has a $4.70 minimum wage, compared with almost $11.00 in France. Third, retailers must ensure their timing is right. In 1995, for example, the Japanese retailer Yachan opened one of the world’s biggest department stores in Shanghai and planned to open 1,000 more stores in China. But at that time, the affluent market was too small to support the store, and in 1997, Yachan filed for bankruptcy. Fourth and finally, a global retailer must be selective. Tesco has opened convenience stores in California but is avoiding supermarkets, because the food retailer believes this market is saturated.

**Entry Strategies**

Four approaches that retailers can take when entering nondomestic markets are direct investment, joint venture, strategic alliance, and franchising.

**Direct Investment**  Direct investment occurs when a retail firm invests in and owns a division or subsidiary that operates in a foreign country. This entry strategy requires the highest level of investment and exposes the retailer to significant risks, but it also has the highest potential returns. One advantage of direct investment is that the retailer has complete control of the operations. For example, McDonald’s chose this entry strategy for the U.K. market, building a plant to produce buns when local suppliers could not meet its specifications.

**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. Examples of successful joint ventures include Carrefour (France) and Sabanci Holding (Turkey); Metro AG (Germany) and Marubeni (Japan); Monsoon (United Kingdom) and Charming Shoppes (United States); Shell Petroleum (Denmark) and Alliance Group (Ukraine); and Wal-Mart (United States) and Bharti (India).

A joint venture reduces the entrant’s risks. In addition to sharing the financial burden, the local partner provides an understanding of the market and has access to local resources, such as vendors and real estate. Many foreign countries, such as India, require joint ownership, though these restrictions may loosen as a result of World Trade Organization (WTO) negotiations. Problems with this entry approach can arise if the partners disagree or the government places restrictions on the repatriation of profits.

**Strategic Alliance**  A strategic alliance is a collaborative relationship between independent firms. For example, a retailer might enter an international market through direct investment but use DHL or UPS to facilitate its local logistical and warehousing activities.

**Franchising**  Franchising offers the lowest risk and requires the least investment. However, the entrant has limited control over the retail operations in the
THE STRATEGIC RETAIL PLANNING PROCESS

The strategic retail planning process entails the set of steps a retailer goes through to develop a strategic retail plan (see Exhibit 5–7). It describes how retailers select target market segments, determine the appropriate retail format, and build sustainable competitive advantages. As indicated in Exhibit 5–7, it is not always necessary to go through the entire process each time an evaluation is performed (step 7). For instance, a retailer could evaluate its performance, find that its present strategy is working well, and then go to step 5 to update its objective.

The planning process can be used to formulate strategic plans at different levels within a retail corporation. For example, the corporate strategic plan of Tesco indicates how to allocate resources across the corporation’s various divisions, such as Tesco, Tesco Extra, Tesco Express, Tesco Metro, Tesco Homeplus, and One Stop. Each division, in turn, develops its own strategic plan.

As we discuss the steps in the retail planning process, we will apply each step to the planning process Kelly Bradford is undertaking. Kelly owns Gifts To Go, a small, two-store chain in the Chicago area. One of her 1,000 square foot stores is located in the downtown area; the other is in an upscale suburban mall. The target market for Gifts To Go is upper-income men and women looking for gifts in the $50–500 price range. The stores have an eclectic selection of merchandise, including handmade jewelry and crafts, fine china and glassware, perfume, watches, writing...
instruments, and a variety of one-of-a-kind items. Gifts To Go also has developed a number of loyal customers who are contacted by sales associates when family anniversaries and birthdays come up. In many cases, customers have a close relationship with a sales associate and enough confidence in the associate’s judgment that they tell the associate to pick out an appropriate gift. The turnover of Gifts To Go sales associates is low for the industry, because Kelly treats associates as part of the family. The company pays for medical insurance for all associates, and they share in the profits of the firm.

**Step 1: Define the Business Mission**

The first step in the strategic retail planning process is to 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.\(^5\)\(^6\) Whereas the objective of a publicly held firm is to maximize its stockholders’ wealth by increasing the value of its stock and paying dividends,\(^5\)\(^1\) owners of small, privately held firms frequently have other objectives, such as achieving a specific level of income and avoiding risks rather than maximizing income.

The mission statement defines the general nature of the target segments and retail formats on which the firm will focus. For example, the mission statement of an office supply category specialist, “Serve the customer, build value for shareholders, and create opportunities for associates,” is too broad. It fails to provide a sense of strategic direction.

In developing the mission statement, managers need to answer five questions: (1) What business are we in? (2) What should our business be in the future? (3) Who are our customers? (4) What are our capabilities? (5) What do we want to accomplish? Gifts To Go’s mission statement is “The mission of Gifts To Go is to be the leading retailer of higher-priced gifts in Chicago and provide a stable income of $100,000 per year for the owner.”

Because the mission statement defines the retailer’s objectives and the scope of activities it plans to undertake, Gifts To Go’s mission statement clarifies that its management won’t consider retail opportunities outside the Chicago area, for selling low-priced gifts, or that would jeopardize its ability to generate $100,000 in annual income.\(^5\)\(^2\)

**Step 2: Conduct a Situation Audit**

After developing a mission statement and setting objectives, the next step in the strategic planning process is to conduct a *situation audit*, an analysis of the opportunities and threats in the retail environment and the strengths and weaknesses of the retail business relative to its competitors. The elements in the situation analysis are shown in Exhibit 5–8.\(^5\)\(^3\)

**EXHIBIT 5–8**

Elements in a Situation Audit

<table>
<thead>
<tr>
<th><strong>MARKET FACTORS</strong></th>
<th><strong>COMPETITIVE FACTORS</strong></th>
<th><strong>ENVIRONMENTAL FACTORS</strong></th>
<th><strong>ANALYSIS OF STRENGTHS AND WEAKNESSES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Barriers to entry</td>
<td>Technology</td>
<td>Management capabilities</td>
</tr>
<tr>
<td>Growth</td>
<td>Bargaining power of vendors</td>
<td>Economic</td>
<td>Financial resources</td>
</tr>
<tr>
<td>Seasonality</td>
<td>Competitive rivalry</td>
<td>Regulatory</td>
<td>Locations</td>
</tr>
<tr>
<td>Business cycles</td>
<td></td>
<td>Social</td>
<td>Operations</td>
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<td></td>
<td></td>
<td></td>
<td>Merchandise</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Store management</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Customer loyalty</td>
</tr>
</tbody>
</table>
Market Factors Some critical factors related to consumers and their buying patterns are the target market size and growth, sales cyclicity, and seasonality. Market size, typically measured in retail sales dollars, is important because it indicates a retailer's opportunity to generate 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. Some retailers, however, prefer to concentrate on smaller markets because they face less competition. Cato, for instance, sells value-priced women's fashion in more than 1,000 stores located in 31 U.S. states, primarily in small towns.54

Growing markets are typically more attractive than mature or declining markets. For example, retail markets for limited assortment, extreme value retailers are growing faster than are those for department stores. Typically, the return on investment is higher in growing markets because competition is less intense than in mature markets. Because new customers are just beginning to patronize stores in growing markets, they may not have developed strong store loyalties and thus might be easier to attract to new outlets.

Firms are often interested in minimizing the business cycle's impact on their sales. Thus, those retail markets for merchandise affected by economic conditions (such as cars and major appliances) are less attractive than retail markets unaffected by economic conditions (such as food).

In general, markets with highly seasonal sales are unattractive because a lot of resources are needed to accommodate the peak season, but then resources are underutilized the rest of the year. To minimize problems due to seasonality, ski resorts promote summer vacations to generate sales during all four seasons.

To conduct an analysis of the market factors for Gifts To Go, Kelly Bradford went on the Internet to get information about the size, growth, and cyclical and seasonal nature of the gift market in general and, more specifically, in Chicago. On the basis of her analysis, she concluded that the market factors were attractive; the market for more expensive gifts was large, growing, and not vulnerable to business cycles. The only negative aspect was the high seasonality of gifts, with peaks at Valentine's Day, June (due to weddings), Christmas, and other holidays.

Competitive Factors The nature of the competition in retail markets is affected by barriers to entry, the bargaining power of vendors, and competitive rivalry.55 Retail markets are more attractive when competitive entry is costly. Barriers to entry institute conditions in a retail market that make it difficult for other firms to enter the market, such as scale economies, customer loyalty, and the availability of good locations.

Scale economies are cost advantages due to a retailer's size. Markets dominated by large competitors with scale economies are typically unattractive. For example, a small entrepreneur might avoid becoming an office supply category specialist because the market is an oligopoly dominated by three large firms: Staples, Office Depot, and OfficeMax. These firms have a considerable cost advantage over the entrepreneur because they can buy merchandise cheaper and operate more efficiently by investing in the latest technology and spreading their overhead across more stores. However, Retailing View 5.4 discusses how some small retailers develop sustainable advantages over national chains with significant scale economies.

Retail markets dominated by a well-established retailer that has developed a loyal group of customers also are unattractive. For example, Home Depot's high customer loyalty in Atlanta, where it has its corporate offices, makes it hard for a competing home improvement center to enter the Atlanta market.

Finally, the availability of locations may impede competitive entry. Staples, for instance, attributes part of its success over its rivals in the northeastern United States to its first-mover advantage. The Northeast has a preponderance of mature but stable retail markets, so finding new locations is more difficult there than it is
in most of the rest of the United States. Because Staples started in the Northeast, it was able to open stores in the best locations.

Entry barriers are a double-edged sword. A retail market with high entry barriers is very attractive for retailers presently competing in that market, because those barriers limit competition. However, markets with high entry barriers are unattractive for retailers not already in the market. For example, the lack of good retail locations in Hong Kong makes this market attractive for retailers already in the region but less attractive for retailers desiring to enter the market.

Another competitive factor is the bargaining power of vendors. Markets are less attractive when only a few vendors control the merchandise sold in it. In these situations, vendors have the opportunity to dictate prices and other terms (like delivery dates), reducing the retailer’s profits. For example, the market for retailing fashionable cosmetics is less attractive because only two suppliers, Estée Lauder (Estée Lauder, Clinique, Prescriptives, Aveda, Jo Malone, Bumble and Bumble, Tommy Hilfiger, MAC, and Origins) and L’Oréal (Maybelline, Giorgio Armani, RedKen, Lancôme, Garnier, and Ralph Lauren), provide very desirable premium brands. Because department stores need these brands to support a fashionable image, the suppliers have the power to sell their products to retailers at high prices.

The final competitive factor is the level of competitive rivalry in the retail market. Competitive rivalry is the frequency and intensity of reactions to actions undertaken by competitors. When rivalry is high, price wars erupt, employee raids occur, advertising and promotion expenses increase, and profit potential falls. Conditions that

5.4 RETAILING VIEW Competing Against the Giants

When small businesses compete for the same customers as big box retailers, the story goes, they lose. But a small paper goods, office furnishing, and gift shop called Quill & Press, located near a Staples megastore in Acton, Massachusetts, in the Boston area, has managed to achieve great results.

The small store offers niche products that cannot be found in Staples. Its product assortment ranges from a 35¢ ball-point pen to a $3,500 fountain pen by Graf von Faber-Castel. To its upscale customer base, the retailer offers special products available only in the store, including top-of-the-line stationary, invitations, leather goods, art supplies, and writing utensils.

This small retailer manages to keep 35,000–40,000 items in inventory, but its assortment differs significantly from that of Staples, which appeals to the mass market. Whereas Staples offers convenience for customers shopping for basic office and school supplies, the small retailer stocks more emotionally valuable products, like a $2,500 ergonomic leather desk chair.

Customers value the special service that they receive from the small retailer; it knows its clientele better, so it not only stocks products they desire but also helps them navigate the product selection. As another perk, customers feel as though they are supporting local businesses rather than a national chain. The local retailer makes contributions to local schools and ballet activities—investments a national chain is not likely to support.

Both the big box retailer and the small local retailer thus appear to have found room in the market. Depending on what the customer is searching for, he or she prefers one retailer over the other. However, the service and unique, high-end products that the small retailer provides appear to be offerings that prompt true customer loyalty.

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) a lack of perceived differences between competing retailers. Dunkin’ Donuts and Starbucks have an intense rivalry in some markets. Starbucks has extended its food/lunch menu, while Dunkin’ is encroaching on Starbucks’ gourmet coffee turf. Pricing for similar items is close, though Starbucks is still more expensive. To provide easier accessibility, Starbucks is offering Dunkin’-style drive-through windows in some locations.

When Kelly Bradford started to analyze the competitive factors for Gifts To Go, she realized that identifying her competitors wasn’t easy. Although there were no gift stores carrying similar merchandise at the same price points in the Chicago area, there were various other retailers from which a customer could buy gifts. She identified her primary competitors as department stores, craft galleries, catalogs, and Internet retailers. Kelly felt there were some scale economies in developing customer databases to support gift retailing. The lack of large suppliers meant that vendors’ bargaining power wasn’t a problem, and competitive rivalry was minimal because the gift business was not a critical part of the department store’s overall business. In addition, merchandise carried by the various retailers offered considerable differentiation opportunities.

**Environmental Factors** Environmental factors that can affect market attractiveness span technological, economic, regulatory, and social changes. When a retail market is going through significant changes in technology, existing competitors are vulnerable to new entrants that are skilled at using the new technology. Many traditional store-based retailers were slow to develop their multichannel Internet strategies fully. For instance, in the 1990s, few retailers offered the ability for customers to purchase over the Internet and return merchandise to a store. Today, however, the larger multichannel retailers set the standards for services provided through technology.

Some retailers may be more affected by economic conditions than others. During tough economic times, retailers that offer a perceived high value offering, such as discount, off-price, warehouse clubs, and extreme value retailers, are in a much better position than retailers specializing in luxury goods, such as jewelry stores, designer apparel specialty stores, and gourmet and organic grocers.

Government regulations can reduce the attractiveness of a retail market. For example, until recently, government regulations have made it difficult for foreign-owned retailers to open stores in India. Also, many local governments within the United States have tried to stop Wal-Mart from entering their markets in an attempt to protect locally owned retailers.

Finally, trends in demographics, lifestyles, attitudes, and personal values affect retail markets’ attractiveness. Apple specializes in developing aesthetically designed products in areas of popular technology. Its stores also mimic the high-tech design of its products and are known to have “Apple Style.” The products are appealing to aficionados of technology, as well as to nontechnological consumers. Apple Stores are simple to navigate and friendly, and the architecture is similar to a fashion or luxury store. The stores feature circular signage inspired by the thumbwheel on the iPod and hosts the “Genius Bar” that staffs technical support. Apple has partnered with AT&T to make it the exclusive distributor of the iPhone.

Retailers need to answer three questions about each environmental factor:

1. What new developments or changes might occur, such as new technologies and regulations or different social factors and economic conditions?
2. What is the likelihood that these environmental changes will occur? What key factors affect whether these changes will occur?
3. How will these changes affect each retail market, the firm, and its competitors?

Kelly Bradford’s primary concern when she did an environmental analysis was the potential growth of Internet gift retailers such as RedEnvelope. Gifts seem
ideal for an electronic channel, because customers can order the item over the Internet and have it shipped directly to the gift recipient. Kelly also recognized that the electronic channel could effectively collect information about customers and then target promotions and suggestions to them when future gift-giving occasions arose.

**Strengths and Weaknesses 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. Exhibit 5–9 outlines some issues to consider in performing a strength and weakness analysis.

Here is Kelly Bradford’s analysis of Gifts To Go’s strengths and weaknesses:

<table>
<thead>
<tr>
<th>Management capability</th>
<th>Limited—Two excellent store managers and a relatively inexperienced person helped Kelly buy merchandise. An accounting firm kept the financial records for the business but had no skills in developing and utilizing customer databases.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial resources</td>
<td>Good—Gifts To Go had no debt and a good relationship with a bank. Kelly had saved $255,000 that she had in liquid securities.</td>
</tr>
<tr>
<td>Operations</td>
<td>Poor—While Kelly felt Gifts To Go had relatively low overhead, the company did not have a computer-based inventory control system or management and customer information systems. Her competitors (local department stores, catalog, and Internet retailers) certainly had superior systems.</td>
</tr>
<tr>
<td>Merchanidising</td>
<td>Good—Kelly had a flair for selecting unique gifts, and she had excellent relationships with vendors providing one-of-a-kind merchandise.</td>
</tr>
<tr>
<td>Store management</td>
<td>Excellent—The store managers and sales associates were excellent. They were very attentive to customers and loyal to the firm. Employee and customer theft were kept to a minimum.</td>
</tr>
<tr>
<td>Locations</td>
<td>Excellent—Both of Gifts To Go’s locations were excellent. The downtown location was convenient for office workers. The suburban mall location was at a heavily trafficked juncture.</td>
</tr>
<tr>
<td>Customers</td>
<td>Good—While Gifts To Go did not achieve the sales volume in gifts done in department stores, the company had a loyal base of customers.</td>
</tr>
</tbody>
</table>
Step 3: Identify Strategic Opportunities

After completing the situation audit, the next step is to identify opportunities for increasing retail sales. Kelly Bradford presently competes in gift retailing using a specialty store format. The strategic alternatives she is considering are defined in terms of the growth opportunities in Exhibit 5-4. Note that some of these growth strategies involve a redefinition of her mission.

Step 4: Evaluate Strategic Opportunities

The fourth step in the strategic planning progress is to evaluate opportunities that have been identified in the situation audit. The evaluation determines the retailer’s potential to establish a sustainable competitive advantage and reap long-term profits from the opportunities being evaluated. Thus, a retailer must focus on opportunities that utilize its strengths and its 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 for which the retailer has a strong competitive position. A formal method for performing such an analysis is described in the appendix to this chapter. Here’s Kelly’s informal analysis:

<table>
<thead>
<tr>
<th>Growth Opportunity</th>
<th>Market Attractiveness</th>
<th>Competitive Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase size of present stores and amount of merchandise in stores</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Open additional gift stores in Chicago area</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>Open gift stores outside the Chicago area (new geographic segment)</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Sell lower-priced gifts in present stores or open new stores selling low-priced gifts (new benefit segment)</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Sell apparel and other nongift merchandise to same customers in same or new stores</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Sell similar gift merchandise to same market segment using the Internet</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Open apparel stores targeted at teenagers</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Open a category specialist selling low-priced gifts</td>
<td>High</td>
<td>Low</td>
</tr>
</tbody>
</table>

Step 5: Establish Specific Objectives and Allocate Resources

After evaluating the strategic investment opportunities, the next step in the strategic planning process is to establish a specific objective for each opportunity. 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. Thus, these 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. Kelly’s objective is to increase profits by 20 percent in each of the next five years. She expects she will need to invest an additional $25,000 in her apparel and other nongift merchandise inventory.

Step 6: Develop a Retail Mix to Implement Strategy

The sixth step in the planning process is to develop a retail mix for each opportunity in which an investment will be made and control and evaluate performance. Decisions related to the elements in the retail mix are discussed in Sections III and IV.

Step 7: Evaluate Performance and Make Adjustments

The final step in the planning process is to evaluate the results of the strategy and implementation program. If the retailer is meeting or exceeding its objectives,
changes aren’t needed. But if the retailer fails to meet its objectives, reanalysis is required. Typically, 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. Retailing View 5.5 illustrates how changes in the competitive environment forced Blockbuster to reevaluate its entire retail format.

**Strategic Planning in the Real World**

The planning process in Exhibit 5–7 suggests that strategic decisions are 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. But actual planning processes have interactions among the steps. For example, the situation audit may uncover a logical alternative for the firm to consider, even though this alternative isn’t included in the mission statement. Thus, the mission statement may need to be reformulated. The development of the implementation plan might reveal that the resources allocated to a particular opportunity are insufficient to achieve the objective. In that case, the objective would need to be changed, the resources would need to be increased, or the retailer might consider not investing in the opportunity at all.

### RETAILING VIEW

**Can Blockbuster Stay a Blockbuster?**

Netflix ([www.netflix.com](http://www.netflix.com)), the largest online DVD rental business, began in 1998, causing many consumers to stop patronizing Blockbuster ([www.blockbuster.com](http://www.blockbuster.com)). Many consumers preferred to have movies delivered to their home rather than go to a Blockbuster store. Not only was the service easy to use, but Netflix did not charge late fees, which was customary in the video rental industry at the time.

In 2004, Blockbuster launched Blockbuster Online to compete with Netflix. In November 2006, it launched the Total Access plan, which allows customers to return online rentals to stores, giving customers the convenience of using either channel and allowing them to borrow another movie immediately rather than waiting for return mail. In response to Blockbuster’s Total Access plan, Netflix launched a feature that allowed customers to view their movie and television show selections immediately on their computers.

Blockbuster remains committed to growing its online business. It has elected to lower its prices (and profitability) to increase its subscriber base. Blockbuster is now the largest chain of DVD and game rental stores in the world and has signed up more than 3 million Internet subscribers, compared with 6.8 million Netflix subscribers. Both companies face the threat of movies-on-demand from cable and satellite providers.


Who is winning the DVD rental battle, Blockbuster (left) or Netflix (right)?
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. Thus, retail market strategy describes both the strategic direction and the process by which the strategy is to be developed.

The retail strategy statement includes 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. 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, (7) and customer service.

The strategic planning process consists of a sequence of steps, including (1) defining the business mission, (2) conducting a situation audit, (3) identifying strategic opportunities, (4) evaluating the alternatives, (5) establishing specific objectives and allocating resources, (6) developing a retail mix to implement strategy, and (7) evaluating performance and making adjustments.

Strategic planning is an ongoing process. Every day, retailers audit their situations, examine consumer trends, study new technologies, and monitor competitive activities. But the retail strategy statement does not change every year or every six months; the strategy statement is reviewed and altered only when major changes in the retailer’s environment or capabilities occur.

When a retailer undertakes a major reexamination of its strategy, the process for developing a new strategy statement may take a year or two. Potential strategic directions are generated by people at all levels of the organization, then evaluated by senior executives and operating personnel to ensure that the eventual strategic direction is profitable in the long run and can be implemented.

KEY TERMS

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GET OUT AND DO IT!

1. CONTINUING CASE ASSIGNMENT: Prepare an analysis of the company you selected for the continuing assignment. Identify its direct competitors, its target market and positioning, its strategy with respect to its competitors, its retail format (the elements in its retail mix—merchandise variety and assortment, pricing, locations), and its bases for developing a competitive advantage relative to its competitors. Outline the retailer’s strengths, weaknesses, opportunities, and threats relative to its competitors. Pick a specific country in which the firm does not operate and make a recommendation of whether the retailer should enter the country, and if so, how it should do so.

2. Visit the Web sites for IKEA (www.ikea.com) and Starbucks (www.starbucks.com). Is the look/feel of these Internet sites consistent with the in-store experience of these stores?

3. Go to the Web sites for Wal-Mart (www.walmartstores.com), Carrefour (www.carrefour.fr), Royal Ahold (www.ahold.com), and Metro AG (www.metro.de). Which chain has the most global strategy? Justify your answer.

4. Visit two stores that sell similar merchandise categories and cater to the same target segment(s). How are their retail formats (the elements in their retail mixes) similar? Dissimilar?
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SECTION II Retailing Strategy

On what bases do they have a sustainable competitive advantage? Explain which you believe has a stronger position.

5. Go to the student side of the book's Web site and click on Market Position Matrix. Exercise 1: This spreadsheet reproduces the analysis of international growth opportunities discussed in the appendix to Chapter 5. What numbers in the matrices would have to change to make China and France more attractive opportunities? To make Brazil and Mexico less attractive opportunities? Change the numbers in the matrices and see what effect it has on the overall position of the opportunity in the grid. Exercise 2: The market attractiveness/competitive position matrix can also be used by a department store to evaluate its merchandise categories and determine how much it should invest in each category. Fill in the importance weights (10 = very important, 1 = not very important) and the evaluations of the merchandise categories (10 = excellent, 1 = poor), and then see what is recommended by the plot on the opportunity matrix. Exercise 3: Think of another investment decision that a retailer might make and analyze it using the strategic analysis matrix. List the alternatives and the characteristics of the alternatives, and then put in the importance weights for the characteristics (10 = very important, 1 = not very important) and the evaluation of each alternative on each characteristic (10 = excellent, 1 = poor).

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.

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

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.

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 target customer segments (ideal points).

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?

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?

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.

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 No. 925 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?

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

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.

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?

SUGGESTED READINGS


APPENDIX 5A Using the Market Attractiveness/Competitive Position Matrix

The following example illustrates an application of the market attractiveness/competitive position matrix. The matrix (Exhibit 5–10) provides a method for analyzing opportunities that explicitly considers both the retailer's capabilities and the retail market's attractiveness. Its underlying premise is that a market's attractiveness and the retailer's competitive position indicates the long-term profit potential for the opportunity. That is, the matrix indicates that the greatest investments should be made in attractive markets where the retailer has a strong competitive position.

There are six steps in using the matrix to evaluate opportunities for strategic investments:

1. Define the strategic opportunities to be evaluated. For example, a store manager could use the matrix to evaluate departments in a store; a vice president of stores for a specialty store chain could use it to evaluate stores or potential store sites; a merchandise vice president could use it to evaluate merchandise categories sold by the retailer; or a retail holding company's CEO could use it to evaluate international growth opportunities.

2. Identify key factors determining market attractiveness and the retailer's competitive position. Factors that might be selected are discussed in the market attractiveness, competitor analysis, and self-analysis sections of the situation audit.

3. Assign weights to each factor used to determine market attractiveness and competitive position to indicate that factor's importance. Typically, weights are selected so they add up to 100.

4. Rate each strategic investment opportunity on (a) the attractiveness of its market and (b) the retailer's competitive position in that market. Typically, opportunities are rated on a 1 to 10 scale, with 10 indicating a very attractive market or very strong competitive position and 1 indicating a very unattractive market or very weak competitive position.

5. Calculate each opportunity's score for market attractiveness and competitive position. Scores are calculated by (a) multiplying the weights by each factor's rating and (b) adding across the factors.

6. Plot each opportunity on the matrix in Exhibit 5–10.
In this example, a fashion-oriented U.S. women's apparel retailer is evaluating seven countries for international expansion: Mexico, Brazil, Germany, France, the United Kingdom, Japan, and China. Some information about the markets appears in Exhibit 5–11.

To evaluate each country's market attractiveness, the retailer's management identified five market factors, assigned a weight to each factor, rated the markets on each factor, and calculated a market attractiveness score for each alternative (Exhibit 5–12). Here, management assigned the highest weight to the attitude that consumers in the country have toward the United States (30) and gave the lowest weight to market growth (10). Ratings for market size and market growth are based on country data; the firm also had to consider size of its target market—middle-class women between the ages of 25 and 50 years. For this reason, Brazil and Mexico had low ratings on market size. These countries are also low on economic stability; however, the retailer did not find that factor particularly important because the buying power of its target segment is relatively insensitive to the country's economy.

The business climate factor includes an assessment of the degree to which the government supports business and foreign investment. The European countries and Japan are high on this dimension.

Exhibit 5–13 shows the factors, weights, and ratings used to evaluate the retailer’s position in each country versus the competition. In evaluating the competitive

---

**EXHIBIT 5–11**  
**Data about International Markets**

<table>
<thead>
<tr>
<th>Market Factor</th>
<th>Mexico</th>
<th>Brazil</th>
<th>Germany</th>
<th>France</th>
<th>U.K.</th>
<th>Japan</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, 2006 (Millions)</td>
<td>299.1</td>
<td>108.3</td>
<td>186.8</td>
<td>82.4</td>
<td>61.2</td>
<td>60.5</td>
<td>127.8</td>
</tr>
<tr>
<td>Projected population change 2006–2050 (%)</td>
<td>40</td>
<td>28</td>
<td>39</td>
<td>9</td>
<td>5</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>Retail sales market size 2006 (Billions)</td>
<td>3428</td>
<td>288</td>
<td>188</td>
<td>800</td>
<td>665</td>
<td>750</td>
<td>1206</td>
</tr>
<tr>
<td>Per capita retail sales, 2006 ($)</td>
<td>11,461</td>
<td>2,659</td>
<td>1,006</td>
<td>9,709</td>
<td>10,866</td>
<td>12,397</td>
<td>9,437</td>
</tr>
<tr>
<td>Retail sales compounded annual growth rate 2006–2011 (%)</td>
<td>4.3</td>
<td>2.8</td>
<td>4</td>
<td>1.4</td>
<td>2</td>
<td>4.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Population density (per sq. mile)</td>
<td>80</td>
<td>143</td>
<td>57</td>
<td>598</td>
<td>287</td>
<td>640</td>
<td>876</td>
</tr>
<tr>
<td>% living in urban areas</td>
<td>79</td>
<td>75</td>
<td>81</td>
<td>88</td>
<td>74</td>
<td>89</td>
<td>48</td>
</tr>
<tr>
<td>Business environment ranking</td>
<td>4</td>
<td>33</td>
<td>37</td>
<td>15</td>
<td>13</td>
<td>5</td>
<td>27</td>
</tr>
</tbody>
</table>

**EXHIBIT 5–12**  
**Market Attractiveness Ratings for International Growth Opportunities**

<table>
<thead>
<tr>
<th>Market Factor</th>
<th>Weight</th>
<th>Mexico</th>
<th>Brazil</th>
<th>Germany</th>
<th>France</th>
<th>U.K.</th>
<th>Japan</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td>20</td>
<td>2</td>
<td>2</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Market growth</td>
<td>10</td>
<td>10</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Economic stability</td>
<td>15</td>
<td>2</td>
<td>2</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Business climate</td>
<td>25</td>
<td>4</td>
<td>2</td>
<td>7</td>
<td>7</td>
<td>10</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Attitude toward U.S.</td>
<td>30</td>
<td>7</td>
<td>5</td>
<td>8</td>
<td>3</td>
<td>10</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>480</td>
<td>340</td>
<td>735</td>
<td>550</td>
<td>815</td>
<td>745</td>
<td>280</td>
</tr>
</tbody>
</table>

**EXHIBIT 5–13**  
**Competitive Position for International Growth Opportunities**

<table>
<thead>
<tr>
<th>Competitive Factor</th>
<th>Weight</th>
<th>Mexico</th>
<th>Brazil</th>
<th>Germany</th>
<th>France</th>
<th>U.K.</th>
<th>Japan</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Brand image</td>
<td>30</td>
<td>8</td>
<td>10</td>
<td>4</td>
<td>3</td>
<td>7</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Vendor relations</td>
<td>20</td>
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<td>860</td>
<td>490</td>
<td>380</td>
<td>630</td>
<td>780</td>
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position, management felt that its brand name was the most critical aspect because image is particularly important in selling fashionable merchandise. Because cost was viewed as the least important factor in determining the competitive position of a high-fashion retailer, it received a weight of only 10.

In terms of the retailer's competitive position within each country, the firm believed its brand name was very well known in Japan and Brazil but not in France or Germany. Brazil, Mexico, and China offer the best opportunities to operate efficiently due to the low labor costs in these countries. Evaluations of each of the countries are plotted on the market attractiveness/competitive position matrix in Exhibit 5–10. According to the recommended investment level and objectives associated with each cell in the exhibit, the retailer should invest substantially in Japan, the United Kingdom, Mexico, and China and be cautious about investments in Brazil, Germany, and France.