

RETAIL MANAGEMENT – LECTURE 2

CHAPTER 2 – TYPES OF RETAILERS

1. Overview

Retailers must first understand the nature of competition in the retail marketplace before they can develop and implement a retail strategy for their business. This module discusses the various types of retailers and how they compete against one another by providing consumers with a variety of benefits that differ from one another. All of these advantages are reflected in how retailers respond to customer needs through the use of retail mixes, including the types of merchandise and services offered, the degree to which their offerings emphasize services over merchandise, and the prices charged.

2. Desired Learning Outcomes

1. Discuss the trends shape today's retailers
2. Explain the different types of retailers.
3. Elaborate how do retailers differ in terms of how they meet the needs of their customers
4. Explain how service retailers differ from merchandise retailers
5. Identify the types of ownership for retail firms

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Learning Objective 1 - Retail Characteristics

The various types of retailers each provide their own set of advantages. Customer preferences for the type of retailer they shop at are influenced by the benefits they are looking to obtain.

Internet channel

Many people's shopping habits have been transformed as a result of this. OpenTable, for example, allows you to make online restaurant reservations in a variety of cities across the United States. Consumers can use their mobile phones to place food orders, locate retail stores, and find product information, for example. Additionally, the Internet has provided shoppers with a plethora of shopping options.

Type of Merchandise

Access: Philippine retail industry booming - <https://www.philretailers.com/philippine-retail-industry-booming/>
Source: Inside Retail Asia | July 19, 2017)

Asked students to read more: <https://insideretail.asia/2017/07/19/philippine-retail-industry-booming/#daily>

Variety and Assortment

It is possible for different retailers to offer the same merchandise; however, the variety and assortment of merchandise available will differ between them. In the retail industry, variety refers to the number of different product categories that a retailer offers. The assortment of a given merchandise category refers to the number of different items that are available in that category. It is common to refer to the breadth of merchandise as "product variety," while the depth of merchandise refers to the number of products available in "product assortment." Every single individual piece of merchandise is referred to as a stock-keeping unit (SKU) in the business world (SKU). For example, a 33-ounce box of Tide laundry detergent with bleach in its original scent, as well as a blue, long-sleeved, button-down collar Ralph Lauren shirt in a medium fit and flare style, are examples of SKUs.

Services Offered

Consumers can distinguish between retailers based on the services they provide to their customers. Customers expect the following services from almost all retailers: the display of merchandise, the acceptance of credit cards, the provision of parking, and the availability of the store at times that are convenient for the customer. Certain additional services, such as home delivery and gift wrapping, are occasionally charged to customers by some retailers. Retailers, on the other hand, may provide a wide range of services to their customers.

Provide example: Olympic Village at SM offers assistance in selecting the appropriate kayak, as well as repairs. Outdoorplay.com and SnR do not provide these services.

Prices and the Cost of Offering Breadth and Depth of Merchandise and Services

Customers find a deep and broad selection, such as the one EMS offers in kayaks, to be appealing, but it is expensive for retailers to maintain such a large and diverse inventory. When a retailer offers a large number of SKUs, the retailer's inventory investment increases because the retailer must maintain backup stock for each and every SKU. In a similar vein, services attract customers to a retailer, but they are also prohibitively expensive. More employees must be compensated to provide information and assistance to customers, modify products to meet the needs of customers, and demonstrate products. Store facilities such as child care facilities, restrooms, dressing rooms, and check rooms take up valuable floor space that could be used to stock and display merchandise instead. Offering delayed billing, credit, or installment payments necessitates a monetary investment that could otherwise be used to purchase additional merchandise or services. Retailers who provide a greater variety of products, deeper assortments, and/or additional services must charge higher prices in order to make a profit.

Supermarkets

Traditional supermarkets are large self-service retail food stores that sell groceries, meat, and produce as well as a variety of nonfood items such as health and beauty aids, as well as a wide range of general merchandise and household items. In supermarkets,

perishable items such as meat, produce, baked goods, and dairy products account for 44 percent of total sales, and they typically have higher profit margins than packaged goods.

Trends in Supermarket Retailing

Despite the fact that conventional supermarkets continue to sell the vast majority of food items, they are under significant competitive pressure. It seems like everyone wants a piece of the food retailing action. Supercenters are rapidly gaining market share from traditional supermarkets as a result of their greater selections of food and general merchandise at competitive prices, as well as their lower prices. The amount of space dedicated to consumables is increasing at general merchandise discount chains like Target and Walmart, as well as extreme-value retailers like Dollar General and Family Dollar. Convenience stores are also selling a greater variety of fresh goods. Supercenters and warehouse clubs pose a particular threat to supermarkets because their superior operating efficiencies allow them to maintain low costs and prices while competing against them. Because they are able to purchase in such large quantities, these stores have tremendous bargaining power in the market. They have also made significant investments in cutting-edge supply chains, assortment planning, and pricing systems that allow them to reduce their inventories while simultaneously increasing their sales and margins.

Fresh Merchandise

Fresh-merchandise categories are those located around the perimeter of a supermarket, also known as the "power perimeter," and consist of the dairy, bakery, meat, florist, produce, deli, and coffee bar, among other things. These departments draw in a lot of customers and generate a lot of revenue. In these categories, traditional supermarkets are capitalizing on their existing strengths, and they are devoting more shelf space and staff time to them. They are promoting fresh merchandise through cooking demonstrations and "action" stations, which include store-made sushi and freshly grilled meat, among other things.

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Health/Organic Merchandise

Natural, organic, and fair-trade foods are becoming increasingly available in conventional supermarkets to cater to the growing segment of consumers who are concerned about their health and the environment. To buy fair trade products, you must buy them from factories that pay their workers a living wage, which is significantly higher than the prevailing minimum wage, and provide additional benefits such as on-site medical treatment.

Ethnic Merchandise

They are more likely to prepare meals from scratch, spend more on groceries, prefer stores with bilingual staff and signage, and place importance on fresh food.

Private-Label Merchandise Conventional supermarket chains are leveraging their quality reputation to offer more private-label merchandise. Private-label brands benefit both customers and retailers. The benefits to customers include having more choices and finding the same ingredients and quality as in national brands at a lower price. The benefits of private-label brands to retailers include increased store loyalty, the ability to differentiate themselves from the competition, lower promotional costs, and higher gross margins compared with national brands.

Improving the Shopping Experience Creating an enjoyable shopping experience through better store ambience and customer service is another approach that supermarket chains use to differentiate themselves from low-cost, low-price competitors. Supermarkets are increasingly incorporating “food as theater” concepts, such as open-air market designs, cooking and nutrition classes, demonstrations, baby-sitting services, and food tasting.

Combined supermarket and full-line discount store, supercenters are large stores (185,000 square feet) that offer a variety of products. Supercenter sales are dominated by Walmart, which has 2,700 locations in the United States, accounting for 81 percent of total supercenter sales and outpacing its competitors Meijer, Super Target (Target), Fred Meyer (Kroger), and Super Kmart Center (Super Kmart) (Sears Holding). 17 Supercenters provide a convenient one-stop shopping experience by bringing together a diverse selection of grocery and

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general merchandise products under one roof.. When customers' primary reason for visiting the supercenter is to purchase groceries, they are more likely to purchase general merchandise (nonfood) items on the spur of the moment. General merchandise has higher margins than food, allowing supercenters to charge higher prices for food items than they otherwise would. Supercenters, on the other hand, are extremely large, and some customers find them inconvenient because it can take a long time to locate the items they are looking for.

Hypermarkets are also large (100,000 to 300,000 square feet), combination food stores (60 to 70% of the store's space), and general merchandise stores (30 to 40% of the store's square footage). Carrefour, the world's second-largest retailer, owns and operates hypermarkets around the world. Hypermarkets typically stock fewer SKUs than supercenters—between 40,000 and 60,000 items ranging from groceries, hardware, and sports equipment to furniture and appliances to computers and electronics. Hypermarkets are also smaller in size than supercenters.

Warehouse Clubs

Warehouse clubs are retailers that provide a limited and irregular assortment of food and general merchandise, as well as little service, at low prices to end-users and small businesses. Warehouse clubs are also known as warehouse stores.

Convenience Stores

3,000- to 5,000-square-foot stores with quick checkout offer a limited variety and assortment of merchandise in a convenient location with a limited variety and assortment of merchandise. When shopping at a convenience store, consumers save time by eliminating the need to search through a large store and stand in a long checkout line. A little more than half of the items purchased are consumed within 30 minutes of their purchase. Convenience stores have fewer selections and a smaller variety of products, and they charge significantly higher prices than supermarkets. Previously, milk, eggs, and bread accounted for the

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majority of their sales; however, gasoline and cigarettes now account for the majority of their sales.

Learning Objective 2 – General Merchandise Retailers

Department stores, full-line discount stores, specialty stores, category specialists, home improvement centers, off-price retailers, and extreme-value stores are some of the most common types of general merchandise retailers in the United States.

Department Stores

Department stores are retailers that carry a wide variety and a deep assortment of merchandise, provide customer service, and organize their stores into distinct departments for the purpose of showcasing merchandise to customers.

Issues in Department Store Retailing

- Competition

Discount Stores on Price

Specialty Stores on Service, Depth of Assortment

- Lower Cost by Reducing Services

Centralized Cash Wraps

- More Sales

Customers Wait for Sale

- Focus on Apparel and Soft Home
- Develop Private Labels and Exclusive Brands

Full-Line Discount Stores

Full-line discount stores are retailers that provide a broad selection of merchandise, limited service, and low prices. They are also known as dollar stores. There are private label and national brand products available at discount stores.

Specialty Stores

Specialty stores are focused on a small number of complementary merchandise categories and offer a high level of customer service to their customers.

Drugstores

Drugstores are specialty stores that sell products for health and personal grooming that are not available at other stores.

Category Specialists

Category specialists are big-box stores that specialize in a specific type of merchandise and carry a large quantity of it.

Extreme-Value Retailers

Extreme-value retailers are small discount stores that sell a limited selection of merchandise at extremely low prices. They are also known as bargain stores.

Off-Price Retailers

The off-price retailers, also known as closeout retailers, provide a sporadic selection of brand-name merchandise at a significant discount from the manufacturers' recommended retail prices.

Learning Objective 3 – Services Retailing

Consumers purchase products from the retail businesses discussed in the preceding sections. However, services retailers, or businesses that specialize in providing services rather than selling goods, constitute a significant and growing segment of the retail industry.

Several trends indicate that the services retailing industry will continue to grow at a rapid pace in the future. A growing population of older people, for example, will raise the demand for health care services. Younger people are also devoting more time and

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resources to their physical and mental health. Housecleaning, lawn maintenance, clothes washing and pressing, and meal preparation are all services that busy parents in two-income families are willing to pay for so that they can spend more time with their children.

Differences between Services and Merchandise Retailers

Four important differences in the nature of the offerings provided by services and merchandise retailers are

- (1) intangibility,
- (2) simultaneous production and consumption,
- (3) perishability,
- (4) inconsistency of the offering to customers.

Learning Objective 4 - Types of Ownership

The major classifications of retail ownership are:

- Independent, Single Store Establishments

Wholesale-sponsored voluntary group

- Corporate Retail Chains
- Franchises

Some independent retailers join a wholesale sponsored voluntary cooperative group, which is an organization operated by a wholesaler that provides a merchandising program to small, independent retailers on a voluntary basis, in order to compete against corporate chains.

Corporate Retail

The definition of a retail chain is a company that operates multiple retail units under common ownership and that, in order to define and implement its strategy, delegated decision-making authority to a central location.

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Franchising

When a franchisor and a franchisee enter into a contractual agreement, the franchisor grants the franchisee the right to operate a retail outlet under a brand and format that have been developed and supported by the franchisor.

Food Retailers 7-Eleven Arby's Ben & Jerry's Cold Stone Creamery Denny's Domino's Pizza Dunkin' Donuts Johnny Rockets McDonald's Olive Garden Panera Bread Subway KFC Taco Bell

Services Retailers 1-800-GOT-JUNK? AAMCO Cash Now Century 21 Real Estate Coldwell Banker Curves Hampton Inn UPS stores InterContinental hotels Jackson Hewitt Tax Service Jani-King Jazzercise Jiffy Lube LA Weight Loss Lawn Doctor Liberty Tax Service Mail Boxes Midas Payless Car Rental RE/MAX Rent-a-Wreck

Merchandise Retailers Ace Hardware Culligan GNC Matco Tools Merle Norman Pearle Vision Sign-A-Rama

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