

**RETAIL MANAGEMENT – LECTURE 5**  
**CHAPTER 5 – RETAIL MARKET STRATEGY**

**Overview**

In this topic, you will learn about the decisions retail managers make when formulating and implementing their strategy, the different types of retailers, the various channels (stores, the Internet, and catalogs) that retailers use to interact with and sell merchandise to their customers, and the factors that influence consumers' choices of retailers and merchandise. This broad overview of retailing provides the background information necessary for developing and implementing an effective retail strategy in the real world. Furthermore, the researchers looked into how retailers develop their strategy and create a sustainable competitive advantage in order to generate a consistent stream of profits over time. Examine how financial analysis is used to evaluate a retailer's market strategy, including how it is used to monitor the retailer's performance, determine why the retailer's performance is above or below expectations, and provide insights into appropriate actions that can be taken if the retailer's performance falls short of expectations, among other things.

**1. Desired Learning Outcomes**

1. Discuss retail strategy in a long-term strategic planning to cope effectively with the growing intensity of retail competition.
2. Explain how can a retailer build a sustainable competitive advantage in business.
3. Explain the different strategic growth opportunities can retailers pursue in retailing
4. Identify the issues arise as domestic retailers become global retailers
5. Elaborate the steps do retailers go through to develop a strategic plan

## **RETAIL MARKET STRATEGY**

### **Learning Objective 1 - The Retail Strategy**

#### **What Is A Retail Strategy?**

The term "strategic planning" is frequently heard in the retail industry. Retailers, for example, may speak of their merchandise strategy, promotion strategy, location strategy, or branding strategy, among other things. Retail strategy is a term that is used so frequently that it may appear that all retailing decisions are strategic decisions. However, retail strategy is more than just a fancy way of saying retail management.

#### **Definition of Retail Market Strategy**

An outline of the retailer's retail strategy includes three parts: (1) identifying the retailer's target market, (2) identifying the format the retailer intends to use to meet the needs of that market, and (3) identifying the bases on which the retailer intends to build a sustainable competitive advantage.

When a retailer refers to a target market, it refers to the market segment(s) toward which the retailer intends to direct its resources and retail mix. It describes the nature of the retailer's operations, including its retail mix (the types of merchandise and services offered, pricing policy, advertising and promotion programs, store design and visual merchandising, typical locations, and customer service) and the methods it will employ to meet the needs of its target audience. It is possible for a retailer to achieve and maintain a sustainable competitive advantage if it has an advantage over its competitors that is difficult for competitors to copy and can be sustained over an extended period of time.

More attention to long-term strategic planning than ever before

- Due to the emergence of

New competitors

New formats

New technologies

Shifts in customer needs

Elements in Retail Strategy

- Target Market

the market segment(s) toward which the retailer plans to focus its resources and retail mix

- Retail Format

the nature of the retailer's

operations—its retail mix

- Sustainable Competitive  
Advantage

an advantage over the competition

### **Learning Objective 2 – Target Market and Retail Format**

The retailing concept is a retail management orientation that focuses on identifying the needs of a retailer's target market and meeting those needs more effectively and efficiently than competitors. It is also known as the retailing orientation. Customers are at the center of successful retailers' operations. They place a strong emphasis on the needs of their customers and strive to meet those needs more effectively than their competitors.

In the retail industry, a market segment is a group of consumers who have similar needs (a market segment), and a market is a group of retailers who satisfy those needs by using a similar retail format.

Criteria for Selecting A Target Market

- Attractiveness -- Large, Growing, Little Competition → More Profits
- Consistent with Your Competitive Advantages

### **Learning Objective 3 – Building a Sustainable Competitive Advantage**

The final component of a retail strategy is the approach taken by the retailer in order to achieve a sustainable competitive advantage. A retailer's ability to gain an advantage in a retail market is equivalent to the retailer's ability to construct an invisible wall around its position in the retail market, that is, a wall between its current and potential customers and its competitors. The wall will make it difficult 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 if the wall is high.

Three approaches for developing a sustainable competitive advantage are

(1) building strong relationships with customers,

- More than simply liking one retailer over another
- Customers will be reluctant to patronize competitive retailers
- Retailers build loyalty by:

Developing a strong brand for the store or store brands

Developing clear and precise positioning strategies

Creating an emotional attachment with customers through loyalty programs

Relationships with Customers— Customer Loyalty is important. Customer loyalty refers to a customer's commitment to purchasing merchandise and services from a specific retailer. More than simply preferring one retailer over another, customer loyalty is a commitment to a cause. Customers who are loyal to a retailer are less likely to shop at competing retailers in the future.

***For example***, loyal customers will continue to have their car serviced at CARWORLD, even if a competitor opens a store nearby and charges slightly lower prices

## Retail Management

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Lecturer: Michaela DeLeon Castillo, DBA

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

- Retail brand

Can create an emotional tie with customers that build their trust and loyalty

Facilitates store loyalty because it stands for a predictable level of quality

Approaches for Building Customer Loyalty

- Brand Image
- Positioning
- Unique Merchandise
- Customer Service
- Customer Relationship Management Programs

(2) building strong relationships with suppliers,

Vendor Relationships

- Low Cost - Efficiency Through Coordination

Electronic Data Interchange (EDI)

Collaborative Planning and Forecasting to Reduce Inventory and Distribution Costs

- Exclusive Sale of Desirable Brands
- Special Treatment

Early Delivery of New Styles

Shipment of Scarce Merchandise

(3) achieving efficient internal operations.

Human Resources Management

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

Distribution and Info Systems

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

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

Location

- What are the three most important things in retailing?

“location, location, location”

Location is a competitive advantage

- A high density of Starbucks stores

Creates a top-of-mind awareness

makes it very difficult for a competitor to enter a market and find a good location

Can A Retailer Develop a Sustainable Competitive Advantage by:

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

Sources of Competitive Advantage

More Sustainable

- Location
- Customer Loyalty
- Customer Service
- Exclusive Merchandise
- Low Cost Supply Chain Management
- Information Systems
- Buying Power with Vendors

- Committed Employees

Less Sustainable

- Better Computers
- More Employees
- More Merchandise
- Greater Assortments
- Lower Prices
- More Advertising
- More Promotions
- Cleaner Stores

**Learning Objective 4 – Growth Strategies**

- Market Penetration
- Market Expansion
- Retail Format Development
- Diversification

Related vs. Unrelated

Market penetration, market expansion, retail format development, and diversification are the four types of growth opportunities that retailers can pursue to expand their businesses. The vertical axis depicts the synergies that exist between the retailer's current markets and the growth opportunity, regardless of whether the opportunity involves markets that the retailer is currently pursuing or new markets for the retailer. The horizontal axis depicts the synergies that exist between the retailer's current retail mix and the retail mix of the growth opportunity—whether the opportunity takes advantage of the retailer's skills and knowledge in operating its current format or whether the opportunity necessitates the development of new capabilities to operate a new format.

### **Market Penetration**

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

Cross Selling – Sales associates in one department sell complementary merchandise from other departments to customers in another department

Example: Manicurist sells services plus hand lotion or nail polish

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

### **Market Expansion**

The opportunity for market expansion growth entails the use of the existing retail format in additional market segments.

Dunkin’ Donuts – new stores (and at gas stations) outside northeastern

Giordano or Uniqlo (for college students) opens lower-priced chain Penshoppe. for high school students

### **Retail Format Development**

- Develops a new retail format with a different retail mix for the same target market
- Multi-channel retailing
- SM:

SM SUPERMARKET: small stores located close to where customers live and work

SM HYPERMARKET: bring convenience to city center location by specializing in ready-to-eat meals

SM Superstores: traditional stores

SM MALL: one-stop destination with the widest range of food and non-food products

#### Diversification

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

#### **Learning Objective 5 – Global Growth Opportunities**

- Two factors that are frequently used to determine the attractiveness of different international opportunities are (1) the potential size of the retail market in the country in question and (2) the extent to which the country supports and can support the entry of foreign retailers into the country in question

#### China

Increasing operating costs

Lack of managerial talent

Underdeveloped and inefficient supply chain

- India

Prefers small family-owned stores

Restricts foreign investment

#### **Key to Success in Global Retailing**

- Globally sustainable competitive advantage

Low cost, efficient operations - Wal-Mart, Carrefour

Strong private label brands: Starbucks, KFC

Fashion Reputation - The Gap, Zara, H&M

Category dominance – Best Buy, IKEA, Toys R Us

- Adaptability

- Global Culture
- Financial Resources

### **Entry Strategies**

Direct investment, joint venture, strategic alliance, and franchising are the four approaches that retailers can take when expanding into non-domestic markets.

***Direct Investment*** When a retail company invests in and acquires ownership of a retail operation in another country, this is referred to as direct investment. This entry strategy necessitates the greatest amount of investment and exposes the retailer to the greatest amount of risk, but it also has the greatest potential for profit returns. The fact that the retailer has complete control over the operations is a significant advantage of direct investment.

***Joint Venture*** As soon as an entering retailer pools its resources with a local retailer to form a new company, ownership, control, and profits are divided equally between the two parties. A joint-venture entry strategy lowers the risks associated with the new entrant. Additionally, the local partner contributes knowledge of the market and has access to local resources, such as vendors and real estate, in addition to sharing the financial burden. Many foreign countries, such as India, require that foreign entrants partner with domestic firms in order to do business in their country. If the partners do not agree on the entry strategy or if the government places restrictions on the repatriation of profits, this approach may encounter difficulties.

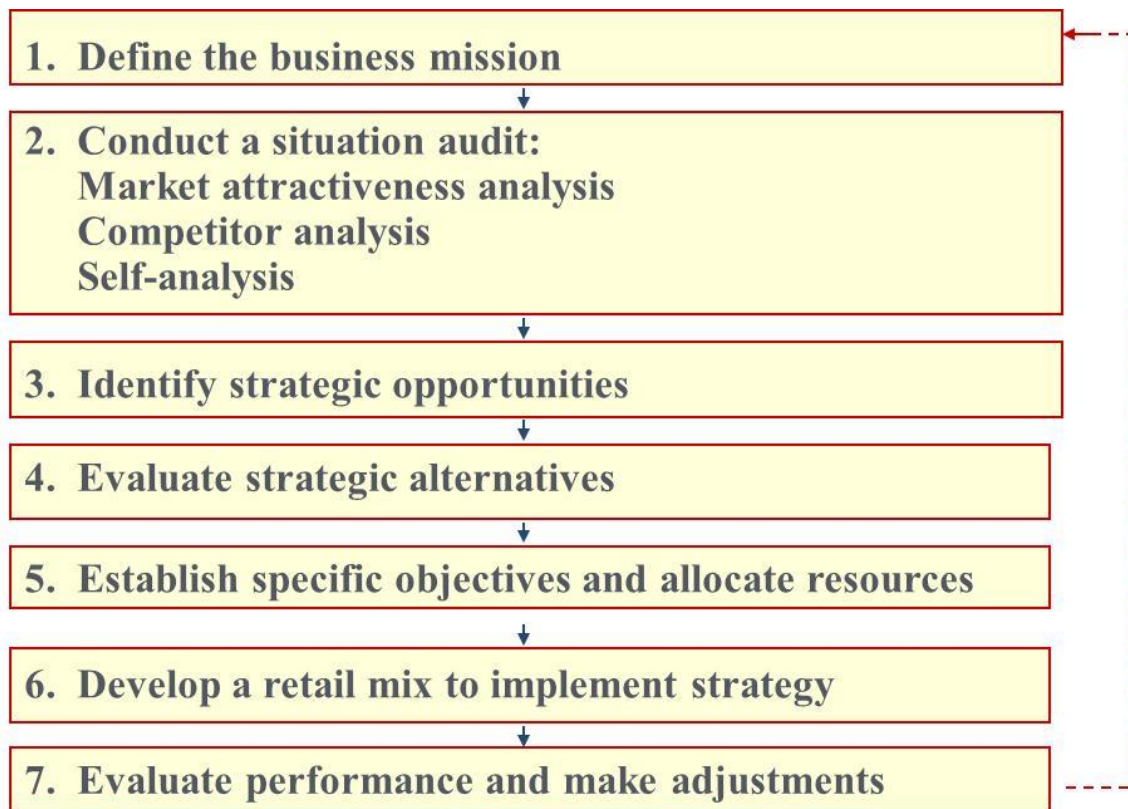
***Strategic Alliance*** A strategic alliance is a collaborative relationship formed between two or more independent companies that share a common goal.

***Franchising.*** Franchising involves the least amount of risk and requires the least amount of capital. However, because the retailer has limited control over the retail operations in the foreign country, its potential profit is reduced, and the risk of assisting in the establishment of a domestic competitor in the foreign country is increased.

### **Learning Objective 6 – The Strategic Retail Planning Process**

The strategic retail planning process is a series of steps that a retailer goes through in order to develop a strategy and business plan (see Exhibits 5–7) for the company. It explains how retailers select target market segments, determine the most appropriate retail format, and create long-term competitive advantages in their respective industries. When developing a strategy and plan, as illustrated in Exhibits 5–7, it is not always necessary to go through the entire process each time (step 7). For example, a retailer could evaluate its performance and proceed directly to step 2, where a situation audit would be conducted.

EXHIBIT 5–7 Stages in the Strategic Retail Planning Process



### Elements in a Situation Audit

Following the development of a mission statement and the establishment of objectives, the next step in the strategic planning process is to conduct a situation audit, which is an examination of the opportunities and threats in the retail environment, as well as the strengths and weaknesses of the retail business in comparison to its competitors.

### Market Factors

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

Competitive Factors

- Barriers to entry

Scale economies of big box retailers

Service and unique, high-end products of small retailers

- Bargaining power of vendors

Markets are less attractive when only a few vendors control the merchandise sold within it

- Competitive rivalry

Defines the frequency and intensity with which competitors react to actions taken by their opponents. The following are the conditions that foster intense rivalry: The presence of a large number of small and medium-sized businesses, slow growth, high fixed costs, and a lack of perceived differences between competing businesses

Questions for Analyzing the Environment

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

Performing a Self-Analysis

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

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