

Retail Market Strategy

CHAPTER 05

Learning Objectives

- Define retail strategy.
- Illustrate how retailers build a sustainable competitive advantage.
- Classify the different strategic growth opportunities retailers pursue.
- Identify issues that arise as domestic retailers become global retailers.
- Know the steps retailers go through to develop a strategic plan.

What is a Retail Strategy?

Retail Strategy -is a statement identifying:

- (1) the retailer's target market,
- (2) the format and resources the retailer plans to use to satisfy the target market's needs, and
- (3) the bases on which the retailer plans to build a sustainable competitive advantage

What is a Retail Strategy?

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

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Target and Retail Format

- Retail market segment

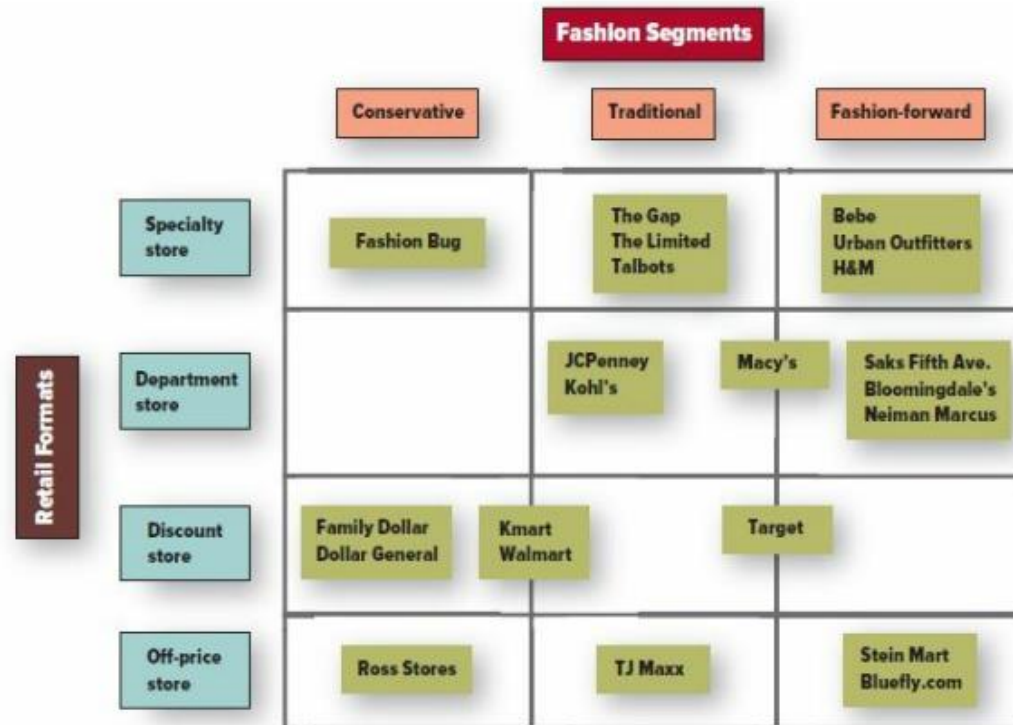


EXHIBIT 5-1 Retail Market Segments for Women's Apparel

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Building a Sustainable Competitive Advantage

- Builds a wall around its battle position
- Approaches for developing a sustainable competitive advantage
 - Strong relationship with the customers
 - Strong relationship with suppliers
 - Efficient internal operations

Sources of Advantage	SUSTAINABILITY OF ADVANTAGE	
	Less Sustainable	More Sustainable
Customer loyalty (Chapters 10 and 15)	Habitual repeat purchasing because of limited competition in the local area	Building of a brand image with an emotional connection with customers; use of databases to develop and utilize a deeper understanding of customers
Location (Chapters 7 and 8)		Convenient locations
Human resource management and managing the store (Chapter 15)	More employees	Committed, knowledgeable employees
Distribution and information systems (Chapter 9)	Bigger warehouses; automated warehouses	Shared systems with vendors
Unique merchandise (Chapters 11 and 12)	More merchandise; greater assortment; lower price; higher advertising budgets; more sales promotions	Exclusive merchandise
Vendor relations (Chapter 12)	Repeat purchases from vendor due to limited alternatives	Coordination of procurement efforts; ability to get scarce merchandise
Customer service (Chapter 17)	Hours of operation	Knowledgeable and helpful salespeople

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

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

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Relationships with Customers—Customer Loyalty

- 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 unique merchandise (private-label brands or own brand)
 - Excellent Customer Service
 - Customer Relationship Management (CRM) Programs
 - Building a Retail Community Using Social Media

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Relationships with Customers—Customer Loyalty

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

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Relationships with Customers—Customer Loyalty

Approaches for Building Customer Loyalty

- [Brand Image](#)
- [Positioning](#)
- Unique Merchandise
- Customer Service
- Customer Relationship Management Programs

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Relationships with Suppliers

- 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 Scare Merchandise

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Efficiency of Internal Operations

- Human Resource Management
- Distribution and Information Systems



CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Efficiency of Internal Operations

Human Resources Management

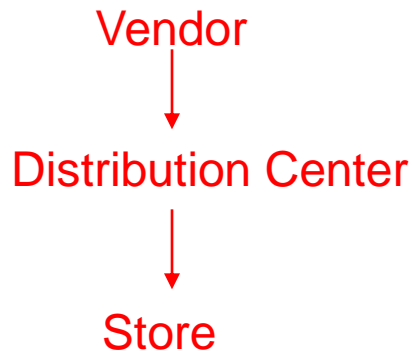
- “Employees are key to build a sustainable competitive advantage”
- Strategies for Recruiting and Retaining Talented Employees
- Employee Branding
- Develop positive organizational culture

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Efficiency of Internal Operations

Distribution and Info Systems

Flow of Information



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

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

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

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 locations

CENTRAL CONCEPTS IN A RETAIL MARKET STRATEGY

Multiple Sources of Advantage

- advantage that is sustainable for a long period of time
- to build as high a wall around their position as possible
- unique products and associated customer loyalty

Growth Strategies

- Market Penetration
- Market Expansion
- Retail Format Development
- Diversification
 - Related vs. Unrelated



Growth Strategies



Growth Strategies

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 complimentary merchandise from other departments

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.

Growth Strategies

- Market Penetration
- Market Expansion
- Retail Format Development
- Diversification
 - Related vs. Unrelated



Growth Strategies

Market Expansion

- Market expansion growth opportunity involves using the existing retail format in new market segments
 - Dunkin' Donuts – new stores (and at gas stations) outside northeastern
 - Giordano or Uniqclo (for college students) opens lower-priced chain Penshoppe. for high school students

Growth Strategies

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

Growth Strategies

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

Global Growth Opportunities

Attractiveness of International Markets

- **China**
 - Increasing operating costs
 - Lack of managerial talent
 - Underdeveloped and inefficient supply chain
- **India**
 - Prefers small family-owned stores
 - Restricts foreign investment
- **Brazil**
 - Very innovative practices for retailing
- **Russia**
 - booming e-commerce
 - growing at a rate of approximately 10 percent annually



Global Growth Opportunities

Key to Success in Global Retailing

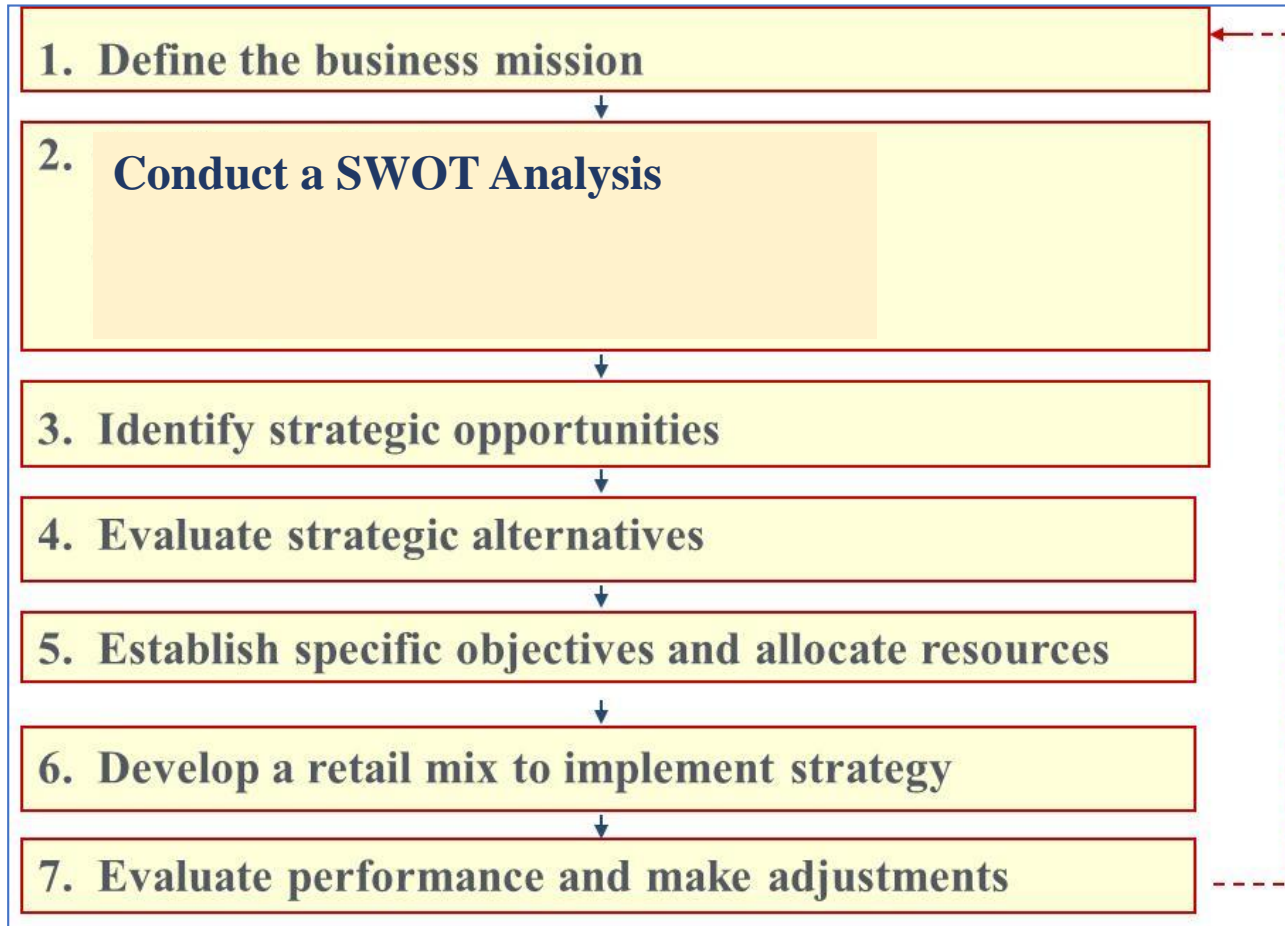
- Globally sustainable competitive advantage
 - Low cost, efficient operations - Wal-Mart, Carrefour
 - Strong private label brands: Starbucks, KFC
 - Fashion Reputation - The Gap, Zara, H&M
 - Category dominance – Best Buy, IKEA, Toys R Us
- Adaptability
- Global Culture
- Financial Resources

Global Growth Opportunities

Entry Strategies



Stages in the Strategic Retail Planning Process



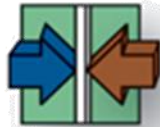
Stages in the Strategic Retail Planning Process

SWOT ANALYSIS



MARKET FACTORS

Size
Growth
Seasonality
Business cycles



COMPETITIVE FACTORS

Barriers to entry
Bargaining power of vendors
Competitive rivalry



ENVIRONMENTAL FACTORS

Technology
Economic
Regulatory
Social



ANALYSIS OF STRENGTHS AND WEAKNESSES

Management capabilities
Financial resources
Locations
Operations
Merchandise
Store management
Customer loyalty

Stages in the Strategic Retail Planning Process

SWOT ANALYSIS

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

Stages in the Strategic Retail Planning Process

SWOT ANALYSIS

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

Stages in the Strategic Retail Planning Process

Competitive Factors

- Competitive rivalry
 - Defines the frequency and intensity of reactions to actions undertaken by competitors
 - Conditions leading to intense rivalry: a large number of same size retailers, slow growth, high fixed costs, a lack of perceived differences between competing retailers

Stages in the Strategic Retail Planning Process

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

Stages in the Strategic Retail Planning Process

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?

Keywords

- **bargaining power of vendors** A characteristic of a market in which retailers are so dependent on large, important vendors that their profits are adversely affected.
- **barriers to entry** Conditions in a retail market that make it difficult for firms to enter the market.
- **brand image** Set of associations consumers have about a brand that are usually organized around some meaningful themes.
- **competitive rivalry** The frequency and intensity of reactions to actions undertaken by competitors.
- **cross-selling** When sales associates in one department attempt to sell complementary merchandise from other departments to their customers.
- **customer loyalty** Customers' commitment to shopping at a store

Keywords

- **joint venture** In the case of global expansion, an entity 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. More generally, any business venture in which two or more firms pool resources to form a new business entity.
- **loyalty program** The set of activities designed to identify and build the loyalty of the retailer's most valuable customers. Also called frequent shopper program
- **market expansion growth opportunity** A strategic investment opportunity that employs the existing retailing format in new market segments.
- **market penetration growth opportunity** An investment opportunity strategy that focuses on increasing sales to present customers using the present retailing format. and build the loyalty of the retailer's most valuable customers. Also called loyalty program.

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Keywords

- **mission statement** A broad description of the scope of activities a business plans to undertake.
- **opportunities and threats analysis** Assessments of features of the environment that might positively or negatively affect the retailer's performance.
- **own brand** Products developed and marketed by a retailer and available for sale only by that retailer. Also called store brand, private-label brand, or house brand
- **perceptual map** A graphic depiction of customers' images of and preferences for retailers.
- **positioning** The design and implementation of a retail mix to create in the customer's mind an image of the retailer relative to its competitors.
- **private-label brand** Products developed and marketed by a retailer and available for sale only by that retailer. Also called store brand, house brand, or own brand.

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