

Retailers, Wholesalers, and Direct Marketers

Chapter Objectives

- 1 Explain the wheel of retailing.
- 2 Discuss how retailers select target markets.

Show how the elements of the marketing mix apply to retailing strategy.
- 3
- 4 Explain the concepts of retail convergence and scrambled merchandising.
- 5 Identify the functions performed by wholesaling intermediaries.
- 6 Outline the major types of independent wholesaling intermediaries and the appropriate situations for using each.
- 7 Compare the basic types of direct marketing and nonstore retailing.
- 8 Describe how much the Internet has altered the wholesaling, retailing, and direct marketing environments.

RETAILING

- **Retailing** Activities involved in selling merchandise to ultimate consumers.
- Retailers are the contact point between channel members and the ultimate customers.
- Retailers act as both customers and marketers in their channels.

EVOLUTION OF RETAILING

- Began with general stores that stocked a wide variety of merchandise.
- Rise of supermarkets in the early 1930s.
- Discount stores in the 1950s, convenience stores in the 1960s, and off-price retailers in the 1980s and 1990s.
- **Wheel of retailing** Hypothesis that each new type of retailer gains a competitive foothold by offering lower prices than current suppliers charge; the result of reducing or eliminating services.

RETAILING STRATEGY

- Retailers base key decision on two fundamental steps in the marketing strategy process:
 - Selecting a target market.
 - Developing a retailing mix to satisfy the chosen market.

Components of Retail Strategy



SELECTING A TARGET MARKET

- Consider size and profit potential of the market and the level of competition.
 - Example: **Target** draws customers away from traditional department stores with trendy but affordable lines of clothing.

MERCHANDISING STRATEGY

- Must decide on general merchandise categories, product lines, items within the product lines, and the depth and width of its assortments.
- Must consider the needs and preferences of its target market.
- Must also consider the overall profitability of each product line and category.

Category Management

- Category manager oversees an entire product line for both vendors and retailers and is responsible for the profitability of the product group.
- Categories that underperform are at risk of being dropped regardless of the strength of individual brands.

The Battle for Shelf Space

- Retailers are increasingly taking on the role of channel captain and have more power over how products are made available to customers.
- Proliferation of new products increases the competition for shelf space.
- **Stock-keeping unit (SKU)** Offering within a product line such as a specific size of liquid detergent.
- Major retailers increasingly make demands from manufacturers—such as pricing and promotional concessions—in exchange for shelf space.

CUSTOMER-SERVICE STRATEGY

- Heightened customer service is one possible retailing strategy.
- Goal is to attract and retain target customers to increase sales and profits.
 - Enhanced comfort through lounges, complimentary coffee, convenient restrooms.
 - Child-care services for customers.
 - Virtual assistance programs.

PRICING STRATEGY

- Prices reflect a retailer's marketing objectives and policies and affect consumer perceptions.

Briefly Speaking

"Businesses planned for service are apt to succeed; businesses planned for profit are apt to fail."

—Nicholas Murray Butler
(1862–1947)

American educator and Nobel Peace Prize winner

Markups and Markdowns

- **Markup** Amount that a retailer adds to the cost of a product to determine its selling price.
 - Other things being equal, stores that offer more services charge larger markups to cover their costs.
 - Other things being equal, stores with a higher turnover rate can cover their costs and earn a profit while charging a smaller markup.
- **Markdown** Amount by which a retailer reduces the original selling price of a product.

LOCATION/DISTRIBUTION STRATEGY

- Location depends on many factors, including including the type of merchandise, the retailer's financial resources, characteristics of the target market, and site availability.

Locations in Planned Shopping Centers

- **Planned shopping center** Group of retail stores planned, coordinated, and marketed as a unit.
- Five main types:
 - Neighborhood shopping center for 5,000 to 50,000 people.
 - Community shopping center for 20,000 to 100,000 people.
 - Regional shopping center for at least 250,000 people.
 - Power center brings together several huge specialty stores.
 - Lifestyle center that offers a combination of shopping, entertainment, and restaurants and bistros in an attractive outdoor environment.

Briefly
Speaking

"The universe is really big. It's even bigger than Wal-Mart."

—Richard Belzer (b. 1944)
American comedian

PROMOTIONAL STRATEGY

- Promotion informs customers about locations, merchandise selections, hours of operation, and prices.
- Also help retailers attract shoppers and build customer loyalty.
- National chains often purchase advertising in print and broadcast media.
- Salespeople also play important promotional role.
 - Selling up—persuading customers to buy higher-priced items than originally intended.
 - Suggestion selling—broadening a customer’s original purchase by adding related items, special promotional products, or seasonal merchandise.
 - Poor service can influence customers’ attitudes about a retailer.

STORE ATMOSPHERICS

- **Atmospherics** Combination of physical characteristics and amenities that contribute to a store's image.
- Exterior should identify the store and help attract target market.
- Interior should compliment retailer's image.
- Welcoming, entertaining environments attract customers who want to do more than just shop.

TYPES OF RETAILERS

Bases for Categorizing Retailers



CLASSIFICATION OF RETAILERS BY FORM OF OWNERSHIP

Chain Stores

- Groups of retail outlets that operate under central ownership and management and handle the same product lines.
- Volume purchases allow chains to pay lower prices than their independent rivals must pay.

Independent Retailers

- Generate about \$3.8 trillion in retail sales every year and account for about 12 percent of all business establishments in the United States.
- Traditional advantage is friendly, personalized service.

CLASSIFICATION BY SHOPPING EFFORT

- Convenience retailers—focus their marketing appeals on accessible locations, long store hours, rapid checkout service, and adequate parking facilities.
 - Examples: Gas stations and dry cleaners.
- Shopping stores—consumers usually compare prices, assortments, and quality levels at competing outlets before making purchase decisions.
 - Examples: Furniture stores, clothing outlets.
- Specialty retailers—combine carefully defined product lines, services, and reputations in attempts to persuade consumers to expend considerable effort to shop at their stores.
 - Examples: Macy's and Nordstrom.

CLASSIFICATION BY SERVICES PROVIDED

- Classifications include self-service, self-selection, or full-service retailers.

CLASSIFICATION BY PRODUCT LINES

Specialty Stores

- Typically handle only part of a single product line that it stocks in considerable depth or variety.
 - Examples: Fish markets, shoe stores, and bakeries.

Limited-Line Retailers

- Offer a large assortment of products within one product line or a few related lines.
 - Example: IKEA.
- Category killer—offer huge selections and low prices in single product lines.

Briefly
Speaking

“Make yourself necessary to somebody.”

—Ralph Waldo Emerson
(1803–1882)

American essayist and poet

General Merchandise Retailers

- Carry a wide variety of product lines that are all stocked in some depth.

Variety Stores

- Offer an extensive range and assortment of low-price merchandise.
- Declining in popularity in U.S.
 - Account for less than 1 percent of all retail sales.
 - Still popular in other parts of the world.

Department Stores

- A series of limited-line and specialty stores under one roof.
 - Example: Macy's.
- Face intense competition from discount stores and Internet sales.
- Fighting back by eliminating poorly performing lines, opening in new locations, and modernizing their stores.

Mass Merchandisers

- Emphasize lower prices for well-known brand-name products, high product turnover, and limited services.
- Often stock a wider line of items than a department store but usually without the same depth of assortment within each line.

Discount Houses Charge low prices and offers fewer services.

Off-Price Retailers Stock only designer labels or well-known brand-name clothing at prices equal to or below regular wholesale prices and then passes the cost savings along to buyers.

Hypermarkets and Supercenters Giant one-stop shopping centers.

Showroom and Warehouse Retailers Send direct mail to their customers and sell the advertised goods from showrooms that display samples.

CLASSIFICATION OF RETAIL TRANSACTIONS BY LOCATION

- Most retail transactions occur in stores.
- Consumer and business-to-business marketers rely on nonstore retailing to generate orders or requests for more information that may result in future orders.

RETAIL CONVERGENCE AND SCRAMBLED MERCHANDISING

- **Retail convergence** Situation in which similar merchandise is available from multiple retail outlets, resulting in the blurring of distinctions between type of retailer and merchandise offered.
- **Scrambled merchandising** Retailing practice of combining dissimilar product lines to boost sales volume.
 - Example: Drug stores that offer cameras and small appliances.

WHOLESALING INTERMEDIARIES

- **Wholesaler** Channel intermediary that takes title to goods it handles and then distributes these goods to retailers, other distributors, or B2B customers.
- **Wholesaling intermediary** Comprehensive term that describes wholesalers as well as agents and brokers.

FUNCTIONS OF WHOLESALING INTERMEDIARIES

Creating Utility

- Time utility—making products available for sale when consumers want to purchase them.
- Place utility—helping deliver goods and services for purchase at convenient locations.
- Ownership (or possession) utility—smooth exchange of title to (or possession of) the products from producers or intermediaries to final purchasers.

Providing Services

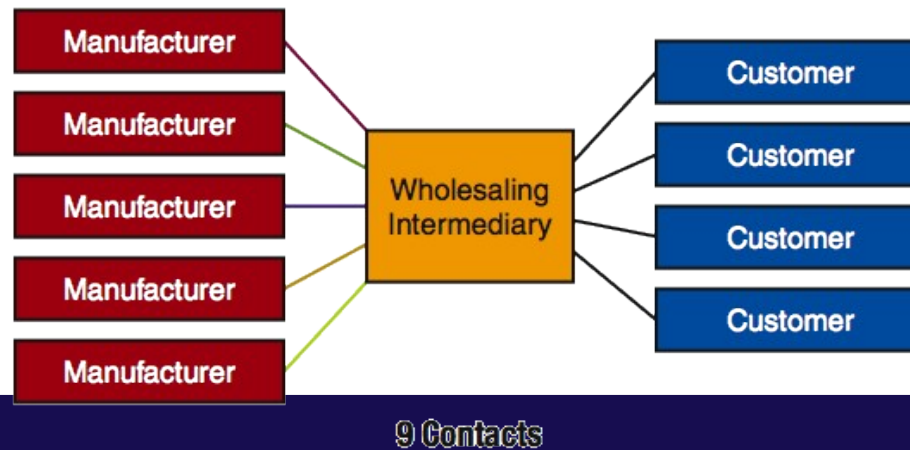
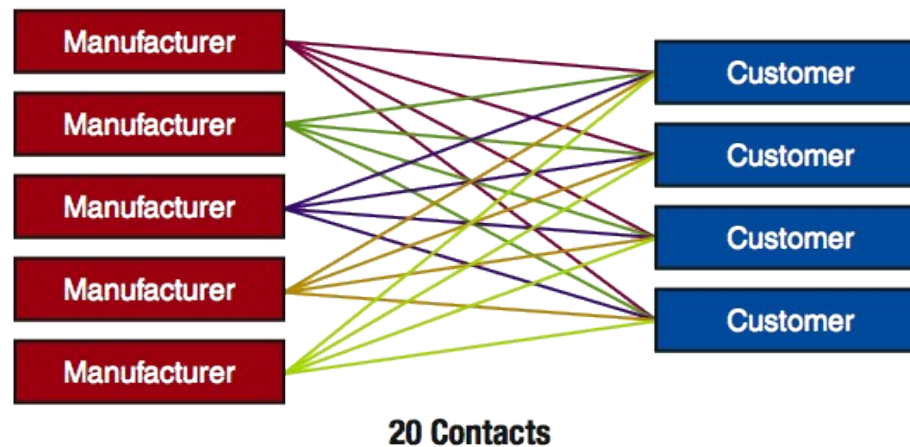
table 14.1 Wholesaling Services for Customers and Producer-Suppliers

SERVICE	BENEFICIARIES OF SERVICE	
	Customers	Producer-Suppliers
Buying Anticipates customer demands and applies knowledge of alternative sources of supply; acts as purchasing agent for customers.	Yes	No
Selling Provides a sales force to call on customers, creating a low-cost method for servicing smaller retailers and business users.	No	Yes
Storing Maintains warehouse facilities at lower costs than most individual producers or retailers could achieve. Reduces risk and cost of maintaining inventory for producers.	Yes	Yes
Transporting Customers receive prompt delivery in response to their demands, reducing their inventory investments. Wholesalers also break bulk by purchasing in economical carload or truckload lots, then reselling in smaller quantities, thereby reducing overall transportation costs.	Yes	Yes
Providing Marketing Information Offers important marketing research input for producers through regular contacts with retail and business buyers. Provides customers with information about new products, technical information about product lines, reports on competitors' activities and industry trends, and advisory information concerning pricing changes, legal changes, and so forth.	Yes	Yes
Financing Grants credit that might be unavailable for purchases directly from manufacturers. Provides financing assistance to producers by purchasing products in advance of sale and by promptly paying bills.	Yes	Yes
Risk Taking Evaluates credit risks of numerous, distant retail customers and small-business users. Extends credit to customers that qualify. By transporting and stocking products in inventory, the wholesaler assumes risk of spoilage, theft, or obsolescence.	Yes	Yes

Lowering Costs by Limiting Contacts

- Intermediaries often cut the costs of buying and selling by cutting the number of contacts.

Transaction Economies through Wholesaling Intermediaries



TYPES OF WHOLESALING INTERMEDIARIES

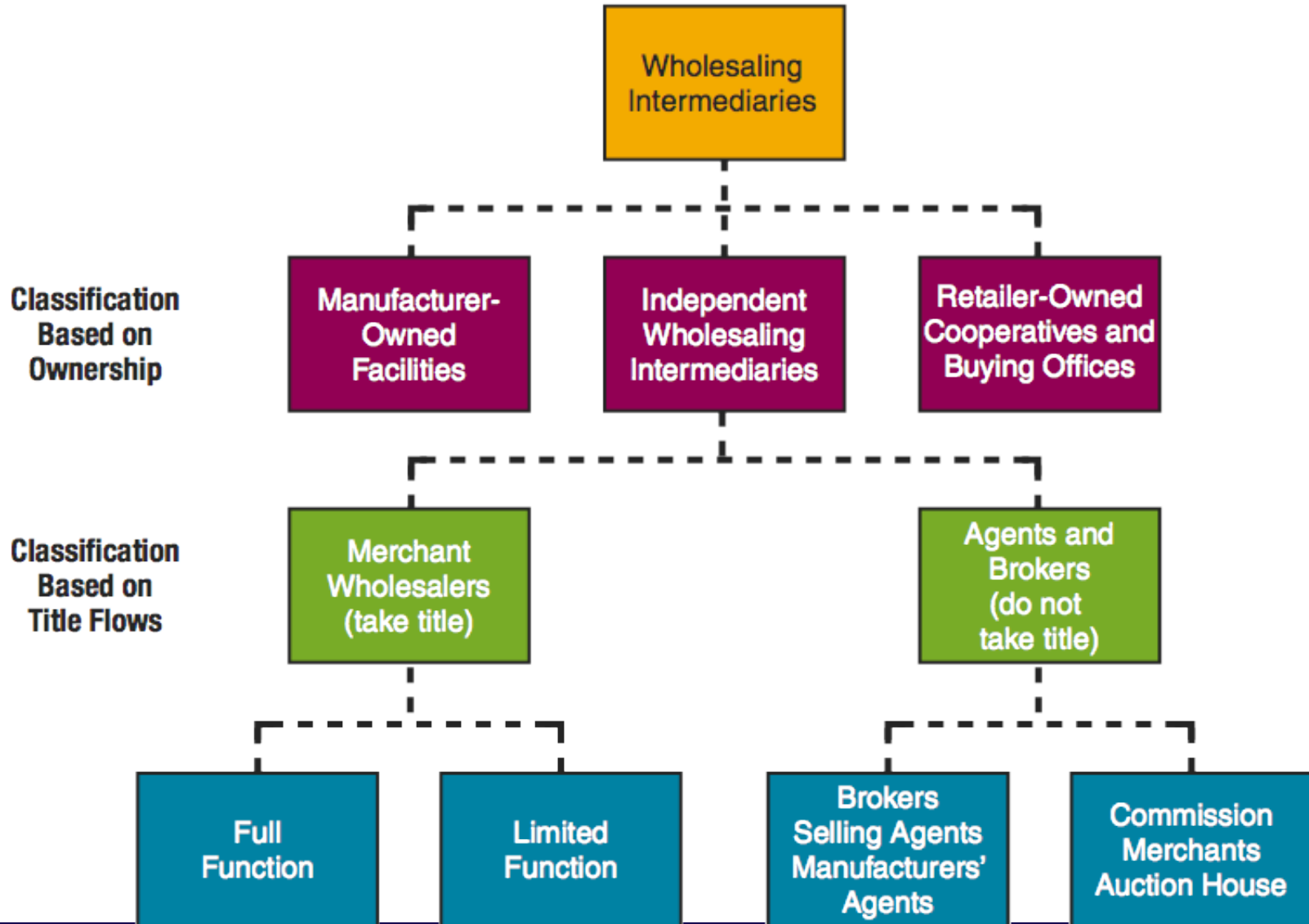


table 14.2 Comparison of the Types of Merchant Wholesalers and Their Services

LIMITED-FUNCTION WHOLESALER

SERVICE	Full-Function	Cash-and-Carry	Truck	Drop Shipper	Mail-Order
Anticipates customer needs	Yes	Yes	Yes	No	Yes
Carries inventory	Yes	Yes	Yes	No	Yes
Delivers	Yes	No	Yes	No	No
Provides market information	Yes	Rarely	Yes	Yes	No
Provides credit	Yes	No	No	Yes	Sometimes
Assumes ownership risk by taking title	Yes	Yes	Yes	Yes	Yes

- **Broker** Agent wholesaling intermediary that does not take title to or possession of goods in the course of its primary function, which is to bring together buyers and sellers.

table 14.3 Services Provided by Agents and Brokers

SERVICE	Commission Merchant	Auction House	Broker	Manufacturers' Agent	Selling Agent
Anticipates customer needs	Yes	Sometimes	Sometimes	Yes	Yes
Carries inventory	Yes	Yes	No	No	No
Delivers	Yes	No	No	Sometimes	No
Provides market information	Yes	Yes	Yes	Yes	Yes
Provides credit	Sometimes	No	No	No	Sometimes
Assumes ownership risk by taking title	No	No	No	No	No

- **Manufacturers' representative** Agent wholesaling intermediary that represents manufacturers of related but noncompeting products and receives a commission on each sale.

RETAILER-OWNED COOPERATIVES AND BUYING OFFICES

- Retailers may assume many wholesaling functions to reduce costs or provide special services.
- May establish cooperative chains or buying offices.

DIRECT MARKETING AND OTHER NONSTORE RETAILING

- **Direct marketing** Direct communications, other than personal sales contacts, between buyer and seller, designed to generate sales, information requests, or store or Web site visits.

DIRECT MAIL

- Comes in a variety of forms, including postcards, letters, and catalogs.
- Can narrowly target a market, achieve good coverage, send messages quickly, and personalize mailing pieces.
- Relatively high response rates.
- High per-reader cost, requires good quality, and considered junk mail by some consumers.
- Relies on database technology.

DIRECT SELLING

- Manufacturers sell directly to consumers.
 - Example: Pampered Chef.

DIRECT-RESPONSE RETAILING

- Customers order merchandise by mail or telephone, by visiting a mail-order desk in a retail store, or by computer or fax machine.
- Increasingly reaching buyers through the Internet.
- Includes home shopping aided by television promotion, such as infomercials and shopping channels like QVC.

TELEMARKETING

- Direct marketing conducted by telephone.
- Most frequently used form of direct marketing.

INTERNET RETAILING

- Sell directly to consumers via storefronts on the Web.
- Usually keep little or no inventory.
 - Fill customer orders directly from vendors.
- Some traditional brick-and-mortar stores have successfully extended their presence to the Web.
 - Examples: Gap and Lands' End.

Briefly Speaking

"If you're not doing Internet business, then you're in the Dark Ages, and you're going to be left behind."

—John Chambers (b. 1949)
CEO, Cisco Systems

AUTOMATIC MERCHANDISING

- World's first vending machines dispensed holy water in Egypt around 215 B.C.
- Vending machines sell more than \$7 billion annually in the U.S.
- In other countries, may offer a wider variety of goods.
- As technology advances, high-end products such as iPods are being sold in vending machines.