Chapter 12
Retailers, Wholesalers and Direct Marketers

Learning Objectives 01/02/03
Retailing and Retail Strategy

Retailing

- Activities involved in selling merchandise to ultimate consumers

Merchandising Strategy
- The merchandising strategy guides decisions regarding the items the retailer will offer
- This will amount to deciding the general merchandising strategy, product lines, and specific items within lines, depth and width of its assortment.
- In developing a successful merchandising mix, retailers must consider the preferences of the target market, competitor offerings, overall profitability of the category
- Category management – attempts to improve product category performance through more coordinated buying, merchandising and pricing
- The proliferation of stock keeping units (SKU-offering within a product line) has resulted in a fierce battle for space on store shelves. Slotting allowances help manufacturers secure shelf space

Customer Service Strategy
- The retail customer service strategy must specify which services the firm will offer and whether it will charge customers for these services
- Typical services include – gift wrapping, alterations, return privileges, product demonstration, bridal registration, consultations, delivery, installations
- These service offerings will depend on store size, type, location, assortment, services offered by competitors

Pricing Strategy
- Prices reflect on retailers marketing objectives, policies and consumer perceptions of a retailer
- Retailer mark ups (amount that the retailer adds to the cost of a product to determine the selling price) depends on services performed by retailer, inventory turnover rate. This also depends on the image that it attempts to project
- Retailers also take mark downs (amount reduced from the original selling price) to achieve a higher inventory turnover rate and when they carry out promotional activities

Location/Distribution Strategy
- Retailers tend to use planned shopping centres (group of retail stores planned, coordinated and marketed as a unit). Neighbourhood shopping centres, community shopping centres, regional shopping centres, power centres and lifestyle centres are variations of planned shopping centres

Promotional Strategy
- Retailers use promotional strategies to provide product information, attract customers to their stores, encourage and persuade to buy. Salesmen are trained to sell up and to use suggestion selling techniques to increase the basket value of items that customers purchase per time

Wheel of Retailing – Hypothesis that each new type of retailer gains a competitive foothold by offering lower prices than current outlets charge; the result of reducing or eliminating services

1. New forms of retail outlets appears with low levels of service. Low profit margins...

2. Overtime
   - Level of service increases, profit margin increases

3. More time
   - Level of service continue to increase, profit margins continue to increase
### General Merchandising Retailers

#### Types of Retailers (Formats)

<table>
<thead>
<tr>
<th>Format</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount House/Retailer</td>
<td>Store that charges low prices but may not offer services such as credit. E.g. Zellers, Wal-Mart. Warehouse clubs such as Costco is a no frills, cash and carry outlet.</td>
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<tr>
<td>Off Price Retailers</td>
<td>Another version of a discount house that stocks designer labels or well-known brands at prices lower than regular products. E.g. Winners, Liquidation World.</td>
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<tr>
<td>Hyper Markets and Super Centres</td>
<td><strong>Hypermarket</strong> – giant one stop shopping facility offering wide selections of grocery, general merchandise at discounted prices. <strong>Super Centre</strong> – large stores usually smaller than a hypermarket that combines groceries with discount store merchandise</td>
</tr>
<tr>
<td>Variety Stores</td>
<td>Carries an extensive range and assortment of low priced merchandise.</td>
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<tr>
<td>Mass Merchandisers</td>
<td>A store that stocks a wider line of goods than a department store, usually without the same depth of assortment within each line.</td>
</tr>
<tr>
<td>Department Stores</td>
<td>Large store that handles a variety of merchandise including clothing, household goods, appliances. E.g. Sears, The Bay</td>
</tr>
<tr>
<td>Chain Stores</td>
<td>Groups of retail outlets that operate under central ownership.</td>
</tr>
<tr>
<td>Independent Stores</td>
<td>Stores owned by independent owners.</td>
</tr>
<tr>
<td>Franchise</td>
<td>Contractual arrangement where a retailer operates based on the operating requirements of a franchisor.</td>
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<tr>
<td>Convenience Retailers</td>
<td>Store that appeals to customers with accessible location, long hours, rapid check out and adequate parking.</td>
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<tr>
<td>Specialty Retailers</td>
<td>Store that combines carefully defined product lines, services, and reputation to persuade shoppers to spend considerable shopping effort there. E.g. men &amp; women’s shoe stores</td>
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#### Classification by Ownership

- **General Merchandising Retailers**
- **Specialty Stores**
- **Limited Line Store**

#### Classification by Product Lines

- **Types of Retailers**
- **Limited Line**

#### Classification by Shopping Effort

- **Self Service** (E.g. 7-Eleven), **Self-Selection** (Safeway) or Full Service (Holt Renfrew)

#### Classification by Services Provided

- **Category Killer**
  - A unique type of limited line retailer. These stores offer huge selections and low prices in single product lines. E.g. Toy “R” Us, Home Depot, Best Buy

### Learning Objectives 04/05

*Retailing Formats and Retail Convergence*

- Many traditional differences no longer distinguish familiar types of retailers due to retail convergence.

- **Retail Convergence** is a situation in which similar merchandising is available from many retail outlets, resulting in the blurring of distinctions between type of retailer and merchandising offered.

- **Scrambled Merchandising** – Retailing practices of combining dissimilar product lines to boost sales volume.
Wholesalers – Channel intermediary that takes title to goods it handles and then distributes these goods to retailers, other distributors or B2B customers

Wholesaling Intermediaries – Comprehensive term that describes wholesalers as well as agents and brokers

Wholesaling Intermediaries

Functions of Wholesaling Intermediaries

Creating Utility
Wholesaling intermediaries create 3 types of utilities
• Enhance time utility by making products available for sale
• Create place utility by delivering to convenient locations
• Create ownership utility through exchange

Providing Services
Provides a number of services
• Buying
• Selling
• Storing
• Transportation
• Providing marketing information
• Financing
• Risk taking

Lowering Costs by Limiting Contracts
• When dealing with several producers, they achieve transition economies.
• They reduce the number of contact points for the manufacturer and will lead to lowering of costs
• See figure 12.4 in page 376

Merchant Wholesalers
Takes title to the goods it handles; also known as an industrial distributor in the business goods market

Limited Function
• Cash and carry wholesaler – performs most functions except for financing
• Truck wholesaler – markets perishable food items
• Drop Shipper – accepts orders from customers and forward them to producers which are shipped directly
• Mail order wholesaler – distributes catalogues to customers

Full Function
• Rack Jobber – markets specialized lines of merchandise to retail store

Agents and Brokers
May or may not take possession of the goods they handle but they do not take title. They bring buyers and sellers together

• Commission Merchant – takes possession of goods shipped to a central market for sale, acts as a producers agent
• Brokers – does not take title or possession, but brings buyers and sellers together and earn a commission
• Selling Agent – works as an agent for the entire marketing program of a firm’s product line
• Manufacturer’s Representative – represent manufacturers of related non competing products and who receives a commission on each sale

Classification Based on Ownership

Manufacturer Owned Facilities
• Sales Branch
• Sales Office
• Trade Fair
• A Merchandising Mart

Independent Wholesaling Intermediaries
Independently owned and operated intermediaries

Retailer Owned Cooperatives and Buying Offices
These are owned and operated by retailers

Classification Based on Title Flows

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See table 12.2 in page 378 for a comparison of services provided across them

See table 12.3 in page 379 for a comparison of services provided across them
Learning Objectives 07
Direct Marketing and Other Non-Store Retailing

Direct Mail
- Direct mail is a major component of direct marketing
- It comes in the form of sales letters, postcards, brochures, booklets, catalogues, DVDs periodicals
- Offers advantages in narrowing a target market, intensive coverage, sending messages quickly, providing detailed information and personalization
- Direct mail relies heavily on database technology
- Catalogues are a popular form of direct mail. Environmental concerns and technology is changing catalogue marketing

Direct Response Retailing
- Customers of a direct response retailer can order merchandise by mail or telephone, by visiting a mail order desk, by computer or by fax
- They rely on direct mail such as catalogues to create telephone or mail order sales
- Increasingly reaching buyers through the internet
- It also includes home shopping which runs on cable television
- Customers can view infomercials and buy products

Direct Selling
- Manufacturers can set up their own channels completely by passing intermediaries and selling their products directly to consumers
- This can take place in many forms
- Producers can own their retail outlets, use a sales force or use independent salesmen who work on commissions to directly promote and sell products to final consumers

Telemarketing
- Telemarketing refers to direct marketing conducted entirely by telephone
- It is the most frequently used form of direct marketing
- It provides marketers with high return on their expenditures, an immediate response and the opportunity to personalize a two way communications
- Do not call lists have made the use of telemarketing challenging

Internet Retailing
- Internet based retailers sell directly to customers via virtual storefronts on the web
- They use little or no inventory, ordering directly from vendors to fill customer orders received via their web site
- Retailers operating pure on online formats did rise and demise
- Traditional retailers have responded have use internet retailing to support their brick and mortar operations and tend to offer brick and click formats
- These retailers has mush more better staying power than pure online firms

Automatic Merchandising
- Vending machine based retailing method has grown rapidly over the years and has become a 6 billion dollar industry
- While vending machines were limited to snacks and drinks, Japanese firms have been offering fresh sushi and new underwear
- Ability to accept credit cards has enabled vending machines to sell high end items like the iPod, headphones and Sony PlayStation video games