

1.4: Retailing

Learning Objectives

- Define retailing



Retailing involves all activities required to market consumer goods and services to ultimate consumers who are purchasing for individual or family needs.

By definition, Business-to-Business (B2B) purchases are not included in the retail channel since they are not made for individual or family needs. In practice this can be confusing because many retail outlets do serve both consumers and business customers—like Home Depot, which has a Pro Xtra program for selling directly to builders and contractors. Generally, retailers that have a significant B2B or wholesale business report these numbers separately in their financial statements, acknowledging that they are separate lines of business within the same company. Those with a pure retail emphasis do not seek to exclude business purchasers. They simply focus their offering to appeal to individual consumers, knowing that some businesses may also choose to purchase from them.

We typically think of a store when we think of a retail sale, even though retail sales occur in other places and settings. For instance, they can be made by a Pampered Chef salesperson in someone's home. Retail sales also happen online, through catalogs, by automatic vending machines, and in hotels and restaurants. Nonetheless, despite tremendous growth in both nontraditional retail outlets and online sales, most retail sales still take place in brick-and-mortar stores.

The Retail Industry

The term retail refers to the sale of goods and services to the public for consumption. Retailing involves all activities required to market consumer goods and services to consumers who are purchasing for individual or family needs through a point of purchase.

The retail industry covers an enormous range of consumer needs. According to the National Retail Federation, there are sixteen major segments in the industry. As shown below, these categories are not necessarily store types, but they show the breadth of products offered through the retail chain.^[1]

Sixteen Segments of the Retail Industry

Category	Sample Retailers
Auto Aftermarket	Advance Auto Parts, AutoZone, Pep Boys
Department Stores	Kohl's, Macy's, Nordstrom, Saks Fifth Avenue
Drug Stores	CVS, Rite Aid, Walgreen's
Entertainment and Consumer Electronics	AT&T, Apple, Barnes & Noble, BestBuy, GameStop, Toys R Us
Footwear	DSW, Foot Locker

Category	Sample Retailers
General Apparel	Forever 21, Gap, H&M, Old Navy, TJ Maxx, Urban Outfitters
Health and Beauty	Bath and Body Works, Sally Beauty, Sephora, Ulta
Hobby and Craft	Michael's, Guitar Center, Jo-Ann Fabrics
Home Improvement and Hardware	Home Depot, Ikea, Pier 1 Imports, True Value, Williams-Sonoma
Jewelry and Accessories	Charming Charlie's, Coach, Piercing Pagoda, Signet, Tiffany & Co.
Mass Merchants	Amazon, Costco, Target, Walmart
Restaurants	Chipotle, KFC, McDonald's, Olive Garden, Starbucks
Small-Format Value	Big Lots, Dollar General, Dollar Tree, Family Dollar
Sporting Goods and Outdoor	Bass Pro Shops, Cabela's, Dick's, Sports Authority, REI
Supermarkets	Albertson's, Kroger, QFC, Safeway, Publix, Whole Foods
Women's Apparel	Ann Taylor, Lane Bryant, Talbot's, Victoria's Secret

The retail industry is designed to create contact efficiency—allowing shoppers to buy what they want with a smaller number of transactions. This design doesn't come from a master retail plan; it's driven by market forces. When a retailer sees an opportunity to expand its offering to increase purchases from customers in one location, it will take advantage of it. For example, when [Barnes & Noble](#) adds Starbucks coffee shops to its locations, customers visit more frequently and stay longer, increasing the likelihood of additional purchases. Costco recognized that busy holiday shoppers would rather buy a Christmas tree as part of a larger convenience purchase than have a focused (and less convenient) buying experience at a Christmas tree lot. Such opportunities cause retailers to expand their offerings, creating greater contact efficiency for consumers.

Given this logic and opportunity, why doesn't every retailer become a Walmart Super Store filled with every possible product? Like all organizations that market effectively, retailers shape their offerings to a target buyer and must consider the particular shopping experience a buyer is seeking in that moment or context. One experience isn't right for everyone at the same time; nor are all "experiences" compatible. For example, a buyer is expecting a different experience when she fills her car's gas tank and when she stays at a luxury resort.

Retailers define their target buyer segments, identify the service outputs that those segments require, and match their offerings to provide value to each target segment.

We can understand this better by looking at [Zara](#) and [Forever 21](#). Both of these retailers offer fast fashion and appeal directly to several markets from pre-teen to young adult, ages 12-24. They generally cycle through products fairly quickly making it appealing for a customer to purchase right away or else risk missing out on the item.

Beyond the distinctions in the products they provide, there are structural differences among retailers that influence their strategies and results. One of the reasons the retail industry is so large and powerful is its diversity. Stores vary in size, in the kinds of services that are provided, in the assortment of merchandise they carry, and in their ownership and management structures.

The U.S. Census Bureau indicates that 94.5 percent of retail companies have only one location or store.^[2] More than one million retail businesses in the U.S. have fewer than one hundred employees. Most retail outlets are small and have weekly sales of just a few hundred dollars. A few are extremely large, having sales of \$500,000 or more on a single day. In fact, on special sale days, some stores exceed \$1 million in sales.

This diversity in size and earnings is reflected in the range of different ownership and management structures, discussed below.

Department Stores

Department stores are characterized by their wide product mixes. That is, they carry many different types of merchandise, which may include hardware, clothing, and appliances. Each type of merchandise is typically displayed in a different section or department within the store. The depth of the product mix depends on the store, but department stores' primary distinction is the ability to provide a wide range of products within a single store. For example, people shopping at Macy's can buy clothing for a woman, a man, and children, as well as housewares such as dishes and luggage.

Chain Stores

The 1920s saw the evolution of the chain store movement. Because chains were so large, they were able to buy a wide variety of merchandise in large quantity discounts. The discounts substantially lowered their cost compared to costs of single unit retailers. As a result, they could set retail prices that were lower than those of their small competitors and thereby increase their share of the market. Furthermore, chains were able to attract many customers because of their convenient locations, made possible by their financial resources and expertise in selecting locations.

Supermarkets



Supermarkets evolved in the 1920s and 1930s. For example, [Piggly Wiggly Food Stores](#), founded by Clarence Saunders around 1920, introduced self-service and customer checkout counters. Supermarkets are large, self-service stores with central checkout facilities. They carry an extensive line of food items and often nonfood products. There are 37,459 supermarkets operating in the United States, and the average store now carries nearly 44,000 products in roughly 46,500 square feet of space. The average customer visits a store just under twice a week, spending just over \$30 per trip. Supermarkets' entire approach to the distribution of food and household cleaning and maintenance products is to offer large assortments these goods at each store at a minimal price.

Discount Retailers

Discount retailers, like [Ross Dress for Less](#) and [Grocery Outlet](#), are characterized by a focus on price as their main sales appeal. Merchandise assortments are generally broad and include both hard and soft goods, but assortments are typically limited to the most popular items, colors, and sizes. Traditional stores are usually large, self-service operations with long hours, free parking, and relatively simple fixtures. Online retailers such as [Overstock.com](#) have aggregated products offered them at deep discounts. Generally, customers sacrifice having a reliable assortment of products to receive discounts on the available products.

Warehouse Retailers

Warehouse retailers provide a bare-bones shopping experience at very low prices. [Costco](#) is the dominant warehouse retailer, with \$79.7 billion in sales in 2014. Warehouse retailers streamline all operational aspects of their business and pass on the efficiency savings to customers. Costco generally uses a cost-plus pricing structure and provides goods in wholesale quantities. A cost-plus pricing structure involves determining what the markup should be for an item and adding that to the cost of the item. The company must first determine the break-even point for the product by calculating all costs involved in marketing, distributing, and producing a product.

Franchises

The franchise approach brings together national chains and local ownership. An owner purchases a franchise which gives her the right to use the firm's business model and brand for a set period of time. Often, the franchise agreement includes well-defined guidance for the owner, training, and on-going support. The owner, or franchisee, builds and manages the local business. [Entrepreneur magazine](#) posts a list each year of the 500 top franchises according to an evaluation of financial strength and stability, growth rate, and size. The [Entrepreneur Magazine's 2016 list of the 500 top franchises](#) is led by [Jimmy John's](#) gourmet

sandwiches, [Hampton](#) by Hilton midprice hotels, [Supercuts](#) hair salon, [Servpro](#) insurance/disaster restoration and cleaning, and [Subway](#) restaurants.

Malls and Shopping Centers



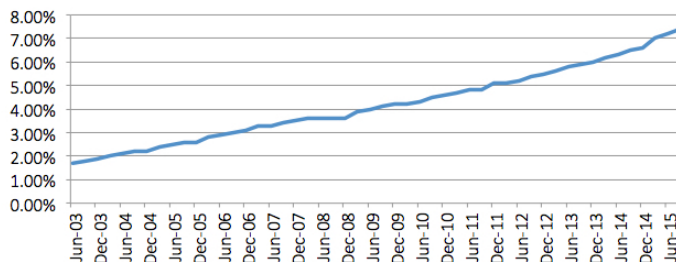
Malls and shopping centers are successful because they provide customers with a wide assortment of products across many stores. If you want to buy a suit or a dress, a mall provides many alternatives in one location. *Malls* are larger centers that typically have one or more department stores as major tenants. *Strip malls* are a common string of stores along major traffic routes, while isolated locations are freestanding sites not necessarily in heavy traffic areas. Stores in isolated locations must use promotion or some other aspect of their marketing mix to attract shoppers.

Online Retailing

Online retailing is unquestionably a dominant force in the industry. Between 2011 and 2015, online retailing is expected to grow from 7% of total retail sales to 15% by 2020. The Asia-Pacific market represents the largest share of the retail ecommerce market while North America is the second largest. Ecommerce sales in North America continue to be fueled by increased spending using smartphones and tablets as well as growth in key categories such as grocery and apparel.

Companies like [Amazon](#) and [Geico](#) complete all or most of their sales online. Many other online sales result from online sales of traditional retailers, such as purchases made at [Nordstrom.com](#). Online marketing plays a significant role in preparing the buyers who shop in stores. In a similar integrated approach, catalogs that are mailed to customers' homes drive online orders. In a survey on its Web site, Land's End found that 75 percent of customers who were making purchases had reviewed the catalog first.^[3]

U.S. Online Sales as a Percent of Retail Sales



Source: U.S. Census Bureau

Catalog Retailing

Catalogs have long been used as a marketing device to drive phone and in-store sales. As online retailing began to grow, it had a significant impact on catalog sales. Many retailers who depended on catalog sales—Sears, Land's End, and J.C. Penney, to name a few—suffered as online retailers and online sales from traditional retailers pulled convenience shoppers away from catalog sales. Catalog mailings peaked in 2009 and saw a significant decrease through 2012. In 2013, there was a small increase in catalog mailings. Industry experts note that catalogs are changing, as is their role in the retail marketing process. Despite significant declines, U.S. households still receive 11.9 billion catalogs each year.^[4]

Nonstore Retailing

Beyond those mentioned in the categories above, there's a wide range of traditional and innovative retailing approaches. Although the Avon lady largely disappeared at the end of the last century, there are still in-home sales from [Arbonne](#) facial products, [cabi](#) women's clothing, [WineShop at Home](#), and others. Many of these models are based on the idea of a woman using her personal network to sell products to her friends and their friends, often in a party setting.

In addition, the amount of subscription services such as [Stitch Fix](#), [Trunk Club](#), and Amazon Prime Wardrobe has increased. Research from the NPD group shows these services are increasing in popularity although still very much in the beginning stages. The annual spend for these services increased 5% to \$170 according to NPD.

Vending machines and point-of-sale kiosks have long been a popular retail device. Today they are becoming more targeted, such as companies selling easily forgotten items—such as small electronics devices and makeup items—to travelers in airports.



Each of these retailing approaches can be customized to meet the needs of the target buyer or combined to span a range of needs.

practice question

<https://assessments.lumenlearning.co...sessments/9123>

1. <https://nrf.com/retail-insights-and-trends> ↩
2. REBECCA R. RUIZ, [Catalogs, After Years of Decline, Are Revamped for Changing Times](#) ↩
3. <http://www.forbes.com/sites/loisgeller/2012/10/16/why-are-printed-catalogs-still-around/#75a143e17fcb> ↩

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